

POOR BECAUSE OF MONEY

by Henk van Arkel and Camilo Ramada

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Poor Because of Money

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This book is dedicated to you.

Dear Reader,

You now own a book that looks different from most books while in addition the distribution of this book is also different. The dedication above indicates that this book is a gift, a gift that hopefully you will pass on. The contents of this book are important and not always easy to digest, but have been presented in such a way that it can be absorbed with the least amount of effort.

In the Netherlands books classified as informative have become increasingly scarce. We have grown tired of reading demanding material. Nevertheless we wish to discuss issues that are intriguing and sometimes difficult to accept. How did we manage to present these issues without taking the chance that we would antagonize our readers?

Simply stated, by writing a book that we would like to read ourselves: an informative and focused book in which new ideas have been presented in short and easily readable chapters.

We hope that we have succeeded and that you will give it a try.

We would like to involve you in new developments that offer new perspectives for the poor, through a new way of looking at poverty problems and promoting insight into lasting solutions. Through a new way of looking at poverty problems, we would like to involve you in developments that offer new perspectives to the poor while promoting insight into lasting solutions.

In this book we hope to make one thing very clear: poverty is not a fate. Of course, poverty has many causes, but many of these causes are in some way connected with the monetary system. How often did you and did we think about that system? How often did we consider if we could choose a different monetary system? Not often.

Do we really have a choice? We definitely do have a choice! It is quite likely that money will change in the near future. At this moment we cannot predict how it will change. Perhaps it will end up as a system that will increase the wealth of the rich even more, while making the poor even poorer. **[Zap R - Ten Ways Money Makes Us Poorer]**.

However, if many of us become involved, other developments should be possible. There are already examples that show what can happen when we make use of new opportunities. Now is the time for us to get together and push new developments in the right direction. It is because of this that we request your attention.

When we discuss money, it does not take very long before the discussion becomes rather involved. In this book we intend to keep it simple.

Therefore we present this book as a Zap Book, or a book just for browsing. Of course you may read this book from cover to cover, but it is also possible to read a bit here and there. The Zap directions will assist you to navigate the book.

Should you wish to look for more information or a more complete understanding, then we would like to refer you to the printed version of *"Poor Because of Money"*, a view based on an analysis of money. The electronic version of this book is in continual development which can be found at (<http://www.strohalm.nl/english/materials.html>). Of course you may ask Strohalm for the printed version of the book, which is only slightly behind the electronic version.

However, it will still take some time before we reach that goal. This book will be more involved, certain people in Latin America are still contributing theoretical and practical ideas. Professor Paulo Albuquerque who is connected with the Brazilian UNISINOS University is working on sociological issues. Another contributor is Professor Euclides Mance, who lives in Curitiba and specializes in economic networking, he is a member of a network called "Liberation Philosophy". Professor Bernardo Reyes from Chile, an Environmental Economist is adding his experience. Partners and friends of Strohalm from all over the world, from Latin America to Southeast Asia to Africa have contributed pieces of the puzzle, and we hope the picture is clear.

In this extended version, or in other Strohalm publications, you will recognize more developed points of view and theory found in this circulation-style book. An asterisk * references these points

We are writing this book in the first person, meaning the singular: "I". We have decided to write it like this because it demonstrates our personal involvement to a greater degree. Also, we have used a collaborative writing style which allows contributors to contribute pieces within texts written by other contributors.

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Henk van Arkel, Camilo Ramada, Peter Moers, Heloisa Primavera, Stephen DeMeulenaere,

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Poor Because Of Money.

A. Farmers Without Land

As I look into a late afternoon sun, I see a spacious hilly landscape. The bench on which I sit is placed in front of a mansion in which only six years ago, the landowner would spend a few weeks of holiday once a year. Right in front of me I see about thirty new small houses, now inhabited by farmers and their families. In the distance are some sheds and stables; the rest I see is cultivated farmland. Six years ago this land was taken over by the movement "Farmers Without Land". My host, Alvaro, is the third son of a small time farmer from the poor North of Brazil. Full of confidence, he talks to me about the first years when they occupied the land together with about 2000 families. "For years the owner had neglected the land: it was a difficult time. The landowner's small private army murdered a few of us and sometimes someone was beaten up just to scare us. No, that was not a very nice time. I remember that there were times when we nearly lost all hope. We seriously doubted if we would be able to continue. Fortunately a few hundred new people came in from Porto Alegre and gave us support. That gave us courage, we had not been forgotten eh? So, we managed to keep our courage and now we have established ourselves here".

A few days ago I heard that the movement "Farmers Without Land" is using a law in which it clearly says that owner's rights of land that has been neglected are invalid. "There are now 102 families living here, families that were without land in the past. Fifty-seven families work together in a cooperative", Alvaro tells me; pride clearly shows in his face. "Now everybody has a small but clean house. Later on people will be able to add an extra room". A little less certain he continues: "The grain silo has to be fixed up while the construction of the mill must continue. The modernization of the bakery is also on the program and will eventually return the investment, the only problem is that money is needed for that, I am sure you understand". Alvaro gets up, "Come along I want to show you something". I follow the 25-year-old farmer's son who leads me along a small path between two wheat fields to the top of a hill. Pointing down he says, "We plan to fix up that watermill next to the river. It will produce electricity for our homes and the bakery. For the time being though nothing gets done, the building has stopped, because we have no money.

What Alvaro is showing me makes my blood flow faster: here are people who take the bull by the horns, people who organize themselves well, people who recognize the benefit of working together. People who decided without a doubt that as long as economic structures remain the same they would also continue to live with difficulty. These people also decided that they are no longer willing to accept that.

In general terms I talk to Alvaro about my work with "Strohalm"

"At Strohalm we work with the philosophy that it is possible for economic activities to take place without becoming obliged to the monetary system.

We are building economic networks so that for many people in many different businesses it is no longer necessary to have to come up with expensive money, and where it then becomes possible to make transactions without interest charges.

Security becomes subjected to people instead of the other way round. We have discovered that economic activities are now possible in areas where under the current monetary system they would not be considered as profitable. Alvaro looks at me and says: "That's exactly what we need! Then we can continue at our own pace. You know, it does not matter how hard we work over here, as long as we don't get a chance to change the system itself, we'll always end up holding the short end of the stick. You could see that a few years ago during the Peso crisis. At the first sign of trouble, investors removed their money; our country was left in ruins. We must find an alternative. The possession of this land has taught us that we must learn to be patient while at the same time willing to fight hard for it".

During my return trip in the car I continue to talk with my hosts: Milton, a former diplomat, now involved in the interests of Farmers Without Land, and Professor Paulo Albuquerque of the Brazilian University, which we at Strohalm have joined forces with. Paulo says: "The Farmers Without Land are not the only ones who decided to take matters into their own hands. There are thousands of large and small-scaled initiatives aiming to get a economy of solidarity going. Often these initiatives interweave, but real cohesion is still absent. I think that you people have shown us the missing link". "How do they pay each other now?" I ask. "Mostly with money", answers Paulo, "sometimes in goods. But there is an enormous shortage of money, that's why it is really totally essential to work together and to set up an exchange network". In deep thought I look through the windows and out into the darkening landscape. "Are you really going to set up such a network?" I ask Milton. He looks at me quickly with a smile on his face, and then returns his attention to driving. "I am more concerned if you people in Holland are really capable in doing anything about the economic structure. Over here, we are ready for it. We have everything: people who are willing and capable to organize a network, we have thousands of cooperative businesses, there are more than a million people in our Trueque systems, a micro credit program exists in every town. We are quite aware that we must continue. No problem with that".

Finally I allow myself to become enthusiastic. What I've seen these weeks in the South of Brazil is heartwarming. Experiments to reinvent the economy are present at all levels. Local governments, social movements, universities, church groups, consumer groups, savings groups, credit unions, neighborhood committees, they are all there. Wherever we go, we end up talking to motivated people. Everywhere we see progress and human dignity. And when Paulo explains how the initiatives can work in conjunction with a consumer-business-network, everybody immediately becomes enthusiastic. I must say that it is like a breath of fresh air when one can talk normally about the monetary system and interest charges, and that the subject is quickly understood.

Here, as opposed to in the Netherlands, it is not necessary to convince people of the damaging consequences of interest charges. Here, people know how human misery is caused by endless interest payments and a monetary system that works badly. Together you can think about new ways of trade and other forms of exchange. What I also find extremely refreshing is that only very few people here are prejudiced in their thinking that it will never succeed. The people in the movement for economics of solidarity know the value of a guiding light that leads to a new reality; anyway they

already have results that they can be proud of, and besides, it must be done. Here, years of work find fertile ground.

Back in the Netherlands we start with the writing of this book. We want the public at home to share our enthusiasm. No, not just sharing but participating, becoming actively involved! In order to make a new reality possible, all sorts of things must happen here and must become known about. Also here, it should be possible to do business in a different way, without us having to become nervous about the money system. In our affluent world we cannot afford to sit down and wait for people elsewhere to clean up the mess for us. We must act ourselves, by helping and stimulating each other. How? By believing in it and by working together!

This is a book about enthusiasm and hope, the hope that a solution to the problems of poverty in the world is in sight. We wish to share this hope and enthusiasm with you. They are based on the following facts:

- ❖ The discovery that there is a strong connection between poverty and money.
- ❖ The discovery that history teaches us that there are other and better methods of exchanging money.

[Zap G - Looking for an alternative]

- ❖ Also, the discovery that money is changing and not only because of the introduction of the “Euro” currency.

[Zap P.b. - Why the US of America is still in a position to buy too much]

- ❖ The realization that when new ideas start to form or are just beginning, it is still possible to change those ideas with relative ease.
- ❖ The fact that two important groups, consumers and those who have or want to set up a small business will benefit the most.
- ❖ The present situation in Latin America seems to be fertile to initiate these new ideas.
- ❖ In Latin America there is a general feeling, based on experience, that the present monetary system is no longer acceptable, for the Latin Americans it simply no longer works. There are a large number of capable organizers, amongst others, ex-refugees and political prisoners due to past dictatorships, who are no longer willing to accept the present situation. In addition, and last but not least, a multitude of organizations are busy with setting up what they call: “An economy based on solidarity”.
- ❖ There are tens of thousands small cooperative businesses, hundreds of thousands Trueque partners and countless consumer groups. There are groups that save, progressive local authorities etc.

[Zap Q - Hopeful developments in Latin America]

- ❖ In the end this book will show you these facts and developments. In addition we shall examine how the current monetary system works and what sort of choices were made; zap, how poverty develops and is amplified because of systematic errors in the monetary system, zap, also, how our way of thinking has become imprisoned in prejudging the value of money.

In this book we also introduce you to “*Strohalm*”. We intend to show you *Strohalm*’s ideology, what *Strohalm* wants, what *Strohalm* has achieved and what *Strohalm* has planned for the next few years. We invite you to participate and to intensify these developments by:

- helping the organization;
- assisting in the distribution of our intellectual property; (reading material)
- incorporating the ideas in this book into existing projects;
- encouraging consumers and companies to participate in the consumer-commerce circuit;
- helping us intensify our contacts in the Global South
- becoming a donor to *Strohalm*
- practicing your eventual influence as a consumer.

B. Mankind Lives By Dreams

What kind of future do we wish to build with our children?

This book will show that new points of view are developing and that many people are working hard in trying to make these points of view a reality. Worldwide work that will allow a realization of a new monetary system that will also permit the participation of the poor is in progress. A technique that will allow us to choose another monetary system, and a different world, is within reach. The idea that it might be possible to change the monetary system and that we can contribute to that change is for us an unrealistic one. To most of us it appears that current changes have become increasingly overwhelming. But when one looks a little closer, one will discover cracks in the foundation of the modern money system. And you don’t need to be a radical world reformer to see this. It also was the vice president of the Bank of England who recently predicted that the current money system would disappear in the near future. It is his view that the current money system will be pushed aside by a new method, the method of speedy streams of information on the Internet. **[Zap S.b. -Mervin King]**

Another monetary system, another economy: suddenly we are able to visualize our boldest dreams again.

What sort of dreams do we tell our children?

During an address the Indian Chief “Seattle” asks himself: “What sort of dreams does the White man speak about to his children during the long winter evenings”? Something to think about. When it comes to dreams, has our affluent world not become rather poor? Do we still talk to our children about the future as if it is something that we can control, something that we can expect as wonderful, and something that we can contribute to? I am not talking about an individual career here.

Do television images teach us that excesses and miserable situations are normal? Or that it is now normal for children to live on streets and garbage dumps? It is important to have nice dreams. Nice dreams facilitate cohesion within a society. However, there must be some chance that those dreams will turn into reality. That’s why I am

very happy that real improvements are now becoming more visible. I invite you to join others and me in becoming involved!

B.a. A Hopeful Future

There are multiple examples of people in poor countries who, with the aid of a savings or a barter system, have managed to free themselves of their poverty and who have managed to create their own opportunities. Later on you will be able to read more about this. **[Zap F - How People Themselves Can Create a Local Economy]** The possibilities will continue. Because if during the next twenty years the monetary system will totally change, then a situation that will offer opportunities to all the poor people may develop.

In order to take advantage of these opportunities to their utmost potential, it is now essential that you and I be prepared to add our weight to the equation so that a more equal method of exchange can be realized. That opportunity now looks real. The opportunity to create an improvement in one of the most controlling factors of the economy: the monetary system.

C. Systematic Poverty Because Of The Money System

In wealthy countries the present money system contributes to huge dynamics, rapid technological developments and an almost limitless expansion of wealth. In poor countries it leads to further poverty and stagnation in development. Increased poverty and escalating numbers of refugees are the flip side of the coin when looking at business expansion and increasing stock market values.

C.a. A money system that contains built-in poverty

[Zap R - Ten Ways Money makes Us Poorer]

Little attention is given to the influence of the money system on poverty. The idea is much more abstract than for instance the idea of poverty as a result of lack of education, natural disasters or war(s).

Still, when natural disasters occur, money is involved. An economy exclusively dependent on nature is sensitive, continued failures translate into hopelessness. And a lack of hope can become fertile ground for thoughts about going to war.

Of course the money system is not the only source of poverty. I am sure that thanks to the present monetary system millions of people unnecessarily end up in a hopeless situation. The most eye-catching relationship between poverty and the money system is of course the so-called debt crisis. The poor experience this as the equivalent of a nuclear blast. The debt crisis during the eighties subjected an entire generation to hunger, for millions the perspective to a better life was destroyed. Bridges had to be taken down, because there was no money for their maintenance, schools had to be closed, hospitals built with difficulty decayed. Still, money keeps on creating new chaos. At the present time the new I.M.F. programs addressing the Asia crisis, the Mexican peso crisis and closer to home the more recent crisis in Turkey have caused capital to evaporate and leave the population in a state of shock.

Interest on money plays an important role in this. The creation of money is closely related to interest, and for this reason the world economy must maintain a continuous and fairly high interest rate. Because of this interest rate the rich will continue to grow richer while the poor will continue to remain poor. Because of interest and against all sense of reason the rich continue to be subsidized by the poor. Interest is always paid by those who are short of money and need to borrow, to those who have money to spare and are willing to lend it. *

C.b. A money system with built-in growth

For the rich, interest is the driving force behind the creation of enormous sums of money. A substantial amount of that money is then invested in new methods of production that in turn lead to further updated and still more production, to more consumption, additional profits, in short, economic growth. The result is an accelerated development of wealth, investments, production growth, consumption growth, new efficiencies and a further concentration of wealth. In this cycle, nature, the environment and mankind are being more and more exploited *.

The wealthy, willing to lend their money, demand interest. The borrower must pay this interest in addition to the amount borrowed. Thus people who borrow money end up paying more in return than originally borrowed. The flow of money from the poor to the rich is instrumental in the debt crisis experienced by many countries: despite the payments of many billions into debt reduction, debt in those countries has steadily grown during the last decades. **[Zap L.a. - Usury is everywhere]**

Usually loans exist of new money. A characteristic of the present money system is that banks are capable of circulating money in the form of loans out of nowhere. Although created out of thin air, interest on these loans must still be paid.

While most people think it reasonable that those who save are entitled to some interest on their savings, this much larger flow of money is unjustified. We are able to see that when we read how during the 13th century goldsmiths were able to collect interest by offering more in certificates representing gold values than they actually had in gold in their safes. When modern banks create new money the same philosophy is. In this situation the circulation of new money does not only result in an increased flow of interest from the poor to the rich, it is also the beginning of a continuing spiral of misery.

Since more money than originally borrowed (capital +interest) has to be paid back it stands to reason that, for the borrower, a shortage of money will come into existence after one year. As more new money is created, the shortage increases. Still more money needs to be created to fill the gap. Off course that money is also subject to interest. Etc, etc. The economy is now caught in spiral of a continuing increase in money and at the same time a growing shortage. Rising debt and rising interest now dominate the money market to such a degree that despite new money a shortage of money remains.

An Example of Numbers

We assume an economy that needs 100 money units to calculate the trade. These 100 units come from a bank that asks an interest rate of 6%. The economy must continue borrowing what flows away to pay the interest in order to keep the total amount at 100 units.

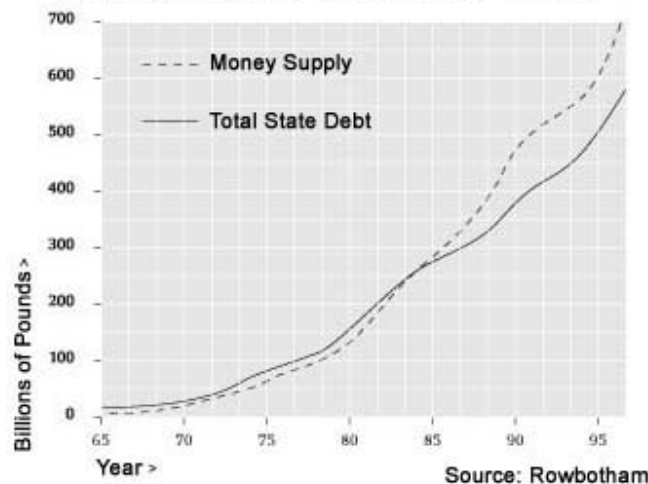
	Yearly Interest Burden	Amount Borrowed
After a year with an original loan of:		100.00
An interest payment must be made:	6.00	
These six units must be borrowed to pay the interest, so that the total borrowed becomes:		106.00
Of these 106 units that are borrowed at the beginning of the year, 2 must be paid toward interest:	6.36	
These 6.36 units must be borrowed, so that the total becomes:		112.36
Of these 112.36 units that are borrowed at the beginning of the year, 3 must be paid toward interest:	6.74	
These 6.74 must be borrowed, therefore the total amount borrowed becomes:		119.10
In year 4, this is already:	7.14	
And		126.28

Thus we see that, even when the interest rate is low, the economy has paid a total of 25% of the total quantity of money needed within just 4 years.

Who are we working for actually?

The connection between the creation of money and the debt load is clearly illustrated in the graph by Rowbotham. **[Zap X.a. - Rowbotham Graph]**

Money supply and State Debt



On the opposite side of this increase in debt is the increase of wealth. All the money paid in interest and all other profits, stock market profits, profits in real estate, profits realized in the speculation in natural resources, money transactions etc, all these profits end up in the hands of a relatively small group of wealthy financiers and institutions. Interest and profits solidify wealth at such a rate that very quickly increasing amounts of money are just waiting to be profitably invested. Worldwide thousands of investment advisers are now needed in order to find new areas where new profits might be realized. For instance, it is no accident that new developments in gene technology outpace the thinking about the consequences. The rapid, unprecedented development presently experienced in the world, is a logical result of the connection between money and rate of interest. The money flow from the poor to the rich is the driving force behind colossal rapid technical and material development in the affluent world. Naturally, renewal also offers us many good things in life; an easier life style, comfort, travel possibilities, cultural development. But larger groups of people are increasingly subjected to misery. The enormous growth in economic activities as a result of all this reinvestment has huge consequences for our nature and environment, our climate; even the health of millions is now affected and fearfully will likely be even more so in the future. What is most lamentable is that the poor will be hit hardest because of this unrestrained increase in wealth. It is precisely in the poor countries where deserts are increasing in size, where fertile soil is washed away and where seed either dries out or rots. In those countries we also dump our used batteries and the pesticides that for quite some time have been outlawed in our own countries. "Environmental pollution takes eight million lives a year", states an article in *Nature and Environment*, April 2001 issue. Most of the victims are in the developing countries.

Furthermore it is the developing countries that are hardest hit by the climate changes caused by our energy consumption. A report in the *N.R.C.* (a Dutch newspaper) of February 19th, 2001 states that food production in large areas in Africa and Asia is now in danger. This report came out of an enquiry initiated by the "United Nations". Because of the rising sea level tens of millions of people living in low-lying areas of Asia will have to be relocated. In Africa the size of deserts will increase, rivers will dry up, causing plant and animal species that the local population depends upon to become extinct.

In South America it is expected that more dry spells and flooding will occur and that the production of food will decrease. Ironically, in Europe and North America, the two largest contributors to the so-called hot house effect, it is expected that climate changes will have a positive outcome especially in the area of agriculture. In the mean time the dizzying technical developments bring poverty closer to home. The distance between the poorest country and the rich (affluent) world is less than a day's journey; TV and the Internet bring it right into our homes. Next, the poor arrive on our doorstep. **[Zap H - Poverty Experienced as a Local Crisis]**

The present monetary system leads to enormous payments of interest from the poor to the rich. This causes the poor to become poorer while the rich become richer. On top of that the increase in wealth leads to problems in the environment. The poor are the most affected by these problems.

C.c. The Reason For The Present Money System

The kind of money that is in use these days has its own influence over the many choices that are made. In other instances it limits the possibilities to choose. Many noteworthy and beautiful things develop as a result of cooperation. However, it is a pity that money has managed to change the economy into a battlefield. On a battlefield the dark side of people rises to the surface.

This book will show how money can be used as a starting point in change, renewal and improvement. No matter how incomprehensible the money system may appear, it is becoming increasingly clear that it can become a point of departure for change. It does not require much imagination to understand that specifically for the poor a positive change could result in a real structural improvement.

Possibly the greatest obstacle is the belief that money is something that can not be changed, that in this area changes are unattainable. This is a deep-rooted conviction. Academic circles have scarcely researched or tested attempts to investigate alternatives to the present system. Authorities in poor countries have never seen any reason to implement real change in the money system.

Even now, while money is changing rapidly, few appear to be aware of it. Through this book we call on you to push for change in the right direction. Many initiatives, already in existence in this area already prove that it is possible. Many people, particularly in the poor countries, have started to experiment with savings and exchange systems. **[Zap F - How People Themselves Can Start a Local Economy]** This offers much hope for positive developments.

D. Anonymous money and its effects

Money in its present form is anonymous; that has destructive consequences for people, communities and entire countries. The victims of anonymous money exist among the homeless in the big cities and the child soldiers in Africa. The fact that money can be anonymous is a choice because in itself money is not a neutral means of exchange. The kind of money system we have chosen determines the outcome.

Recently I spoke with someone about a lofty project that our town council wants to initiate. 'They do that thanks to my money', she said. The night after this I saw a report on television about child soldiers fighting a war that is being paid for by the diamond trade. Suddenly the penny dropped. I would not react so quickly and say: 'They can do that because of my money'. Who knows exactly where the money that pays for the weapons comes from? How do I know what happens to my money when I put it into a savings account or the money I spend in a shop? We don't have a clue whether or how our money adds to all kinds of misery in the world. At the present time money can move without difficulty from country to country, or continent to continent. The pension company may deposit money into an investment fund that in turn invests the money in Tokyo or New York. Perhaps gold is bought from a bank that in turn supports a loan to a small factory in Singapore or Taiwan. How do I know that the Euro, presently in my possession, sooner or later is not used as minimum payment in a sweatshop? Perhaps somewhere along the line that same Euro was used as cover for a diamond transaction. In which case I managed in helping a War Lord in Sierra Leone and without knowing it!

In its present form money is a completely anonymous medium. I have thought for a long time that by definition it was precisely that. Of course, everybody knows, that much misery is caused by people who earn money because of its use; but like most people I always thought that misuse of money is inevitable. But that is not so. Our money system did not spontaneously develop. When it was developed in the past, careful choices were made. Through International conferences and decisions made by national authorities, today's money system developed into its present form.

[Zap G - Looking For an Alternative]. There were other possibilities. **[Zap F – How People Themselves Can Start a Local Economy].**

In the mean time we have got used to the idea that guilders can, without difficulty, be converted into French Francs, or German Marks and that as payment, dollars are used (can be used) nearly world-wide and that on money markets huge amounts of British Pounds are converted into Japanese Yen, or Dollars into Mexican Pesos. Via anonymous money markets, money can now without difficulty shift from one currency to another. In reality, this phenomenon is fairly new. Nowadays, shopkeepers from Brazzaville to Lima love to accept dollars, you could not try that 50 years ago. And if during that time you wanted to convert a million guilders into another currency, permission had to be requested, a good reason had to be given and that request could be accepted or denied.

The bank could refuse your request if in their opinion you did not have a good reason, or on the grounds that the purchase of foreign currency from a particular country would have a negative influence on the strength of its own currency. At the present time it is understood that the bank is in agreement unless the Tax Department or the Department of Justice have reason to object. Lots of work was done during the eighties and the nineties to see to it that money would be able to travel world wide as easily as possible. As a result, international monetary systems have become increasingly anonymous. This had enormous consequences. Money flow from one country to another has now established itself in some unbelievable fashion. Now, in one day, more money flows across the world than is needed to finance all purchases of consumer goods and services for an entire year. **[Zap G.a. - The Egyptian Harvest Bank]** The largest amount of this money is used for indirect

and often questionable transactions. A shipment of grain often changes ownership several times while in transit. Money flashes to a destination where it will take in the highest possible profit unaware what kind of goods or services are purchased.

Often this has disastrous consequences. When it appears that a certain market is not going to perform well capital will dry up. Money has now managed to influence nervous expectations: manufacturing plants run out of money, supplies can no longer be purchased, investments come to a stop, wages can no longer be paid, people end up on the street, local currency devalues, goods for exchange disappear and within a few days an entire economy can collapse. For millions hunger started a few years ago when we witnessed the financial crisis in Asia and Mexico. Many men and women who lose their jobs can relate to this. A cousin who lives in Uruguay, a country reasonably well developed, has always been able to work but was never sure if work would be available the next day. He is a designer and is capable of making wonderful things. When the economy was stable he had lots of work, when the economy declined he was without work. No one needs a lay-out-artist when products become scarce. He would accept odd jobs such as driver, or dealer in dog-food, or do whatever was available. Steadily the good years got shorter, lean years got longer. In the last few years the crisis in all Latin American countries has worsened. Now, at 45 years of age he and many others are in the same boat, no work, no social assistance, no money, and no future. But something is not right here: people consider him to be talented, that what he makes is beautiful and that he is enterprising. Apparently, Uruguay does not lack skilled people; there are plenty of people like my cousin. It remains to be seen if he will ever be able to work again in order to support himself or to supply his clients. It depends on a world economy in which he has no say.

In the mean time there is no single proof that the liberal flow of money across the world has any benefit. For years South Africa has allowed a limited exchange of its currency. Yet, it was possible for the country to develop itself on a limited basis. This was possible in part because of the limited money flow to other financial centers: the rest of the money had to stay in the country and make the best of it. Thus, the money was invested in sectors that according to the world money markets were not profitable enough, but made good sense to the South African mentality. And so, the country gained. The present free system of exchange has not proven to be advantageous to the poor. Now, the money flows out to New York, Zurich or Amsterdam, where it gains more profit.

Simply put, when money can move through time and space without obstruction everybody ends up competing on a global scale!

The unlimited freedom with which money can travel around the globe results in destructive situations for some people, communities and indeed entire countries. The freedom of money movement and anonymity are no accident. This is by preference. The money system that was decided upon allows all this, makes it even unavoidable.

I think that it is clear that there is sufficient reason to develop different systems. It is imperative to look for a system in which the average citizen does not unknowingly ends up contributing to civil wars and child labor. **[Zap V.a. – Strohalm's Exchange and Research Network]** Strohalm is looking into examples of other money systems.

We discovered them through history and in different places in the world. Thanks to the Internet we can now collaborate with researchers all over the world while we are working towards a constant improvement of our analysis towards further improvement with universities in our own country as well as in foreign countries. **[Zap G - Looking For an Alternative]**

In future the money system will find its way more and more into the information highway. Therefore an understandable money system should be feasible. It is likely that money will become a packet of bits and bytes when send from one place to another. Then it should also be possible to include the history of that money in the information. That information would indicate the nature of the money: blood money, or decent money, then each individual can then decide whether to accept that money or not. Another possibility would be to allow money to circulate in a closed circuit where unidentified misery has no chance. **[Zap P - One Money System Not Like the Other]**

We really do have options here.

E. Poverty is advancing

We can go on ignoring problems as long as they remain at a distance. But refugees are arriving on our doorstep in increasing numbers. We are being confronted more acutely with their problems. It will become more and more difficult for us to remain in our cocoon and not become involved.

Just before Christmas 2000 Jorge Alvarez arrived in Spain, illegally. He was hoping to find work there, to earn some money to send home to Ecuador where his wife and two little girls had remained behind. Jorge had to borrow money to be able to make the trip. The passage and the services of the human smugglers ended up costing him about three thousand Euro. He figured that once in Spain he would be able to earn thirty Euro a day by harvesting fruits and vegetables. In Ecuador that represents an unimaginable amount of money! Of course out of that money a certain amount would have to be deducted for housing, transport and other related expenses but enough should be left over to support his family in Ecuador.

And so each morning Jorge and 12 compatriots were crowded into a little bus that took them to the farmer and at night returned them to their quarters. During the beginning of January 2001, not even two weeks since their arrival the little bus was hit by a train on a unguarded railway crossing. Only the driver and a female passenger survived the disaster. Jorge Alvarez died at 25 years of age. His wife, pregnant with their third child, will be held responsible for all the costs. Jorge Alvarez leaves her nothing but debts and hope that went up in smoke. When this accident was reported in the press it became clear how many Ecuadorians reside illegally in Spain. Also how bitter their situation is. "Accident Exposes Scam" headlined La Vanguardia. **[Zap M - The price we pay for wealth is that we cannot do anything about the problems it creates]**

Of course Spain is no exception. Refugees from poor countries live in all affluent Western Countries. Illegal, like pariahs. Without a regular income they are forced to work on the black market at best or end up as criminals or prostitutes at worst. The

world has become increasingly vague. Where about 10 years ago it was still possible to turn the newspaper page or to click to another TV Channel, the victims are now appearing in our own backyard and their problems are becoming increasingly difficult to ignore. In addition, more and more people travel from wealthy countries to destinations where they witness misery with their own eyes. Protecting ourselves from the misery of others is becoming less and less possible. Of course, we continue to be busy, busy, busy. Busy studying, busy with social obligations, and busy playing computer games, watching new and more exciting "Reality TV programs". We have enough excuses to push problems away from us. We are overloaded more than ever before by information and by impressions of our wealthy existence. But in the midst of all this abundance, we can no longer ignore a signal such as that from Jorge. How much longer can we go on hiding behind the idea that there is really nothing we can do about it? We can do something about it. At least we can try to initiate something. Developments in the money area are offering us wonderful points to connect with.

[Zap C - Systematic poverty because of the money system]

F. How People Themselves Can Start A Local Economy

In many countries people without money have countered with their own local initiatives. People were fed up having to depend on money that came from elsewhere, they created their own savings and exchange systems. The "Change the Money System" movement started with small local initiatives that often dovetailed with existing possibilities or local traditions.

F.a. Revolving Savings Clubs in Nepal

The little village of Dhule Gaunda is situated just outside Pokhara, the second largest city in Nepal. Twelve dhikuti's operate among the thousand inhabitants. Dhikuti means storage box and a dhikuti is a local savings group.

Each member in a dhikuti contributes about two thousand rupees per month. At the end of the month the pot is handed over (given) to one of the members. The first time the pot goes to the person who started the dhikuti. The next time the pot is auctioned off to the highest bidder among those who not received anything yet. If the pot contains fifty thousand rupees for instance and someone bids twenty thousand rupees then that person receives thirty thousand rupees, while the remaining twenty thousand rupees is evenly divided among the rest of the members including the bidder.

Within 25 months or so a group had amassed about 1,061,990.00 rupees, the equivalent of about 11,000.00 Euro. Each month someone comes into possession of an amount of money that he or she otherwise would not have been able to save. Now they can buy quality type products that in turn raise the standard of living in the community. In Pokhara the dhikuti is just one example of rotating savings and credit associations, in short: Roscas, that flourish in many poor communities in the South.

F.b. Banco Palmas: Credit in Brazil

One of Strohalm's contacts in South America who is working on the further development of an economy of solidarity is Sandra Magalhaes. She lives in Fortaleza

a town with a few million residents in the poor North of Brazil. She immediately makes a deep impression on me when I meet her for the first time. This happened during a meeting in Santiago, the capital of Chile, attended by representatives of the economy of solidarity throughout Latin America. Sandra is a small and shy woman until the moment that she is given the floor to speak about her experiences. When she speaks it is not just her flaming red hair that adds to her intensity. With infectious enthusiasm she draws us into her work in Fortazela. About five years ago Conjunto Palmeira was still a shantytown like many others: about thirty thousand people living in squalor near the water's edge. Conjunto Palmiera has become an quarter where the people have managed to organize themselves rather well. They have built a sewage system and improved the road. They have planted trees and flowers. It looks a lot nicer. The Banco Palmas to which Sandra devotes whatever free time she has is pivotal to this improvement. Immediately after her work for the town council of Fortazela she travels more than half an hour so that she can devote a few more hours to the bank. She took holidays leave to attend the meeting in Santiago. In reality the Banco Palmas is not a bank at all. It is an organization that operates its own money system in the quarter and arranges micro-credits in Brazilian currency. Credit, for the purpose of consumption is given to entrepreneurs in the quarter and also to the local population. There were many people in the quarter who regularly were out of money. Their problems in making ends meet are simply unimaginable, Sandra tells us. We decided that the Banco Palmas should hand out small amounts of credit for the purpose of consumer spending. We did not know anyone and we had no idea if that money would ever be returned. "Well, we need not have worried too much". Most people here find it very important to have a solution in case of emergency. They do their utmost to repay their debt. Their reasoning is that when necessary they can ask again, Sandra explains. Thus in the shantytown of Conjunto Palmeira money was used in an interesting manner. Thanks to the consumption credit small enterprises in the neighborhood benefited as well. With enthusiasm Sandra tells us more "In the mean time we are spending our own money in the neighborhood. People are not just using that money for local trade; it has also become easier to engage in activities aimed at the clean up of our neighborhood. Our neighborhood has truly improved" We say our good byes at Santiago airport. We agree that our next step will involve the consumer groups. **[Zap U.b. - Consumer Commerce Circuit]**

F.c. Being Creative with Guinea Pigs

In the Lunahuana valley in Peru people have discovered a rather creative way to stimulate the local economy. A revolving fund was created, a loan that continues to be available. When the first borrower has paid of the loan, the next person or group picks up the loan again. In this manner the loan goes from one person to the other. Many funds like this have been set up, but unusual to these funds is the commodity of the fund. The loan does not exist in money but in guinea pigs! It all started with a group of poor women. After they had attended a workshop about breeding guinea pigs one of them received a loan of six guinea pigs, (one male, five females). She started breeding the guinea pigs and when offspring was produced six guinea pigs of the same quality were passed on to the next woman. While this practice continued, the first woman also maintained the breeding process. The initiative of that first small group of women caused others to follow their example.

Throughout nearby villages several women have started with the breeding and trading of guinea pigs. It appears to be going very well. After fifteen months all the women have guinea pigs for the purpose of breeding. Guinea pigs are an important part of the diet and therefore represent a way to earn money. On top of that, guinea pigs multiply rapidly. Since many foreigners visit the area plenty of guinea pigs are being sold. One guinea pig goes for six or seven dollar. This is a considerable amount of money considering that the average monthly income is about twenty five dollars.

The Strohalm publication describes many such practices (methods of savings and exchange) all over the world. Few people realize that also in the Netherlands Co-operative Banks (Credit Unions) strongly influenced the development of trade and industry. Farmers and middle-class owned their own banks (co-ops). Now and then a renewal of this idea occurs in wealthy countries. A variation has been introduced in Scandinavia where it is possible to save with some kind of advantage while borrowing without interest charges is also possible. The so-called JAK-bank. An ingenious system sees to it that everybody contributes and also profits from the bank. Following this example Strohalm has developed a new method that can be realized in cooperation with a Dutch Bank.

F.d. LETS

Many communities worldwide have started mutual credit systems to facilitate equal exchange between each other. One model of this system is the Local Exchange Trading System or LETS. Originating from Canada in 1982, there are LETS groups active in many countries in the world. The system uses a Mutual Credit accounting system, in which a debit from one account (the person making the payment) is always a credit to another account. The simplicity of implementing and maintaining makes it very popular, but in the long term the systems have tended to stabilize at an average membership of about 150 people or declined in size to become a small barter club. To deal with some of the limitations in the LETS model, the Strohalm Foundation has been working to improve LETS systems to achieve greater results.

F.e. Traditional Currencies

In many parts of the Third World, ancient traditional ways of exchanging goods and services are still in use. These systems often use a currency made from local items such as bamboo, wood, shells and beads and follow rules which maintain the culture of the area. Some systems, such as in the Pacific, are quite advanced and cover long distances. These, such as the Kula Ring of the islands within present-day Papua New Guinea cover hundreds of miles and facilitate trading between very distinct and sometimes warring cultures. In the Province of East New Britain in Papua New Guinea, their currency called "Tabu" can be used to pay local government taxes instead of money, and the Provincial Government is also considering accepting the Tabu shell money for Provincial Taxes. In other areas, the traditional currency has been abandoned for modern national currency, but the decline in culture has had a negative impact on society. By encouraging modifications to the traditional currency system, people may be able to continue to live a traditional livelihood while being able to participate in broader economic activities.

F.f. Thailand CCS

In 1997, the Asian Monetary Crisis had a devastating impact on rural economies throughout the region. While most communities were at a loss as to what to do, one community in northeastern Thailand decided to establish barter arrangements with each other. As more and more families became interested, they began asking for assistance in designing a good system. Assistance was provided by the Canadian volunteer agency CUSO together with the British volunteer agency VSO, which provided two volunteers experienced in community exchange systems to work with the community. In 2000, the system was officially launched and despite some rough patches in the course of the learning process, the system continues today.

[ZAP I - Let's Trueque!]

G. Looking for an Alternative

Many people are convinced that the present money system is the only viable one. History shows us differently though. Presently new money systems are surfacing in many different areas. Strohalim is researching this, is developing new ideas and organizes co-operation with the purpose of facilitating a movement that will realize a solidaire style of economy.

In the present system people who have money to spare are rewarded with interest when their money is made available for circulation. **[Zap K - Leaving the money that creates unnecessary misery]** Those who are short of money must pay them for that. (Those who are short of money are charged interest for the privilege of borrowing.) This ensures that there is a constant flow of money from the poor to the rich. **[Zap L - Our theory on interest]** Other money systems where such a flow of money does not occur are possible. Different money systems lead to different results and also lead to different common values. Even in the recent past different systems existed as contrary to the one we now accept as the only one possible. **[Zap P - One money system not like the other]** During the past century political decisions were made that lead to a uniform global money system. Notable is the Bretton-Woods conference in 1944. The next important development was the release of the gold standard covering the dollar by Nixon in 1971, after that the liberalization of the money markets. **[Zap S.e. - Blasting off from the gold standard]** Had different decisions been made at the Bretton-woods conference the world would now look different as well. Ever since, different ways in dealing with the money system have barely been explored while continuing holes in the present system need to be plugged. It is only in the Islam oriented countries that people are thinking to some degree about experiments with interest free structures. In fighting interest careful attention is given to laws and by-laws.

Whoever cares to delve into the past will discover different possibilities. One discovers how ridiculous it is to think that the present system is the only one possible. During the course of history the character of money has changed many times; there are enlightening examples where it was not possible for money to flow from poor to rich as a result of interest charges!

G.a. The Egyptian Harvest Bank

When the historian Preisigke deciphered Egyptian hieroglyphics it appeared that the papyrus scrolls contained directions for the administration of a giro banking system which was totally different from what we are used to. Its principle was simple. Since the Nile River was unpredictable in the overflowing of her banks, harvests were considerably affected. Sometimes the harvest was abundant, sometimes there were several lean years one after the other. That was why the Pharaohs built grain silos for the farmers to deposit their harvest. When the grain was delivered, it was weighed. Its weight was then converted into a weight that represented a standard quality. The Silo's administrators now entered a credit representing that weight to the farmer. If the farmer already had a credit, it was simply added. Later the farmer could stop by and pick up some of his grain for food, but he could also transfer a certain amount to the accounts of others. This way he could purchase land, pay taxes and pay tradesmen. Grain ended up as exchange medium, as money. While the grain was in storage it moved (by giro) so to speak from hand to hand.

Of course the service of the central grain storage building was not without costs, although it was cheaper than having to build one's own (shed) storage facility. People with large amounts of grain naturally paid more than those who stored only a few kilos. This system was in use for several centuries and if you care to examine it a little closer and look at it as a system where in a sense money was being kept for you, then you'll see that people had to pay a fee for the money that was being stored. (or prevented from being circulated). The wealthier you were, the more you paid. Wealthy people started looking for alternatives. They preferred to spend their money. It would be cheaper for them to invest in art or other possessions instead of having to pay for storage. Also artists and craftsmen spent their money freely. It made no sense to keep something that they would not be able to deplete.

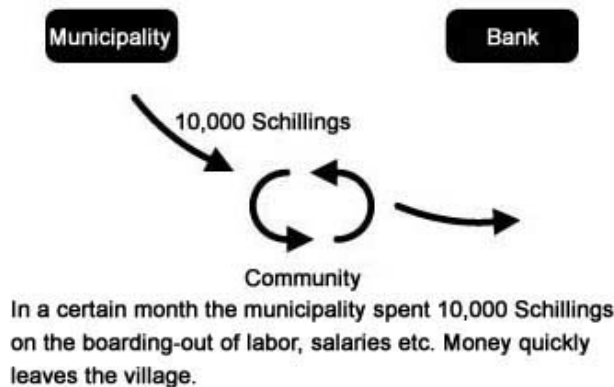
Thanks to this system of paying with money expressed in grain the owner of the grain was not in a position of superiority over those who wanted to borrow some of it and therefore could not demand interest. It was easy for a young and talented blacksmith, ready to start his own business, to find people who were willing to finance his new venture. His position was relatively strong during the negotiating process of the loan and made it possible for him to demand a loan without interest charges and build his blacksmith's shop). The rich person was happy because in a few years he would get his money back while in the mean time he would not have to pay for it. The blacksmith was happy because in securing the loan he did not end up having to deal with a growing debt load. He only had to pay storage charges for a short period of time, in the end the money was handed over to the contractor. The smith did not have to add interest costs to his products so his clients were happy as well. To sum up, everyone paid the storage costs but no one got richer, because they happened to be in possession of the exchange medium. The best element in this whole system was that people preferred to spend their money rather than saving it, hence they contributed to a flourishing economy!

In Germany and Austria during the crisis years of the thirties, a system somewhat like the grain exchange was used through the issue of a local currency: people who blocked the circulation of money, because they elected to keep it in their possession ended up paying for it. This system was made to work by forcing people into spending a weekly small amount for a stamp that had to be glued onto a document.

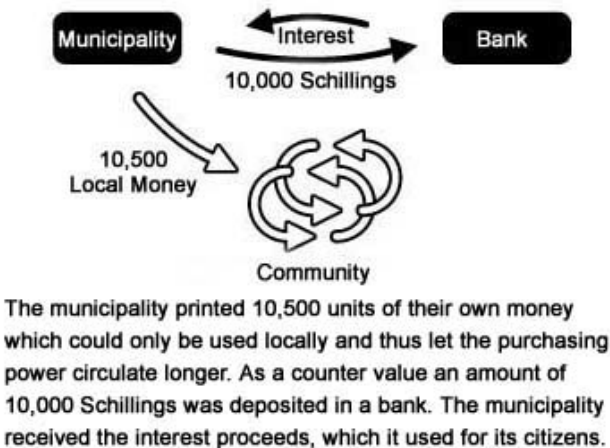
The document only became of value when all the necessary stamps had been attached. It meant that, just as in the grain system, people had to pay if the money remained in their possession, and again money was kept in circulation. Wealthy people were quite happy if someone wanted to borrow their excess money: the borrower ended up paying for the stamps. In the middle of the crisis years the local economy recovered and neither businesses nor their clients had been subjected to excess interest charges.

The Operation of Wörgl Money

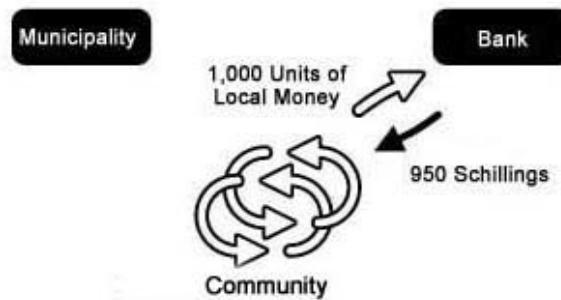
The starting point



The municipality brings local money into circulation

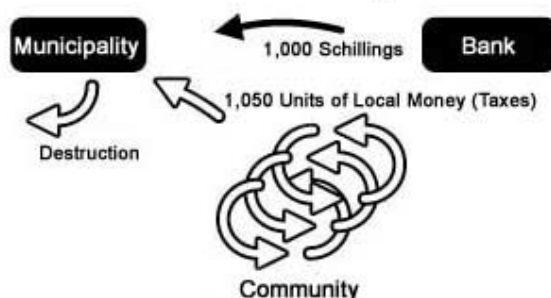


Exchange of local money in Schillings at the bank



Some people who got this local money into their hands, could not use it, for instance because they wanted to buy something that was made outside the city. It was possible to exchange back the local money for Schillings. Who did this was charged with 5% of the costs. In spite of this a part of the people did this and thus arose a flow of local money from the community to the bank and a flow of Schillings from the bank to the community.

Payment of Municipal Taxes in Local Money



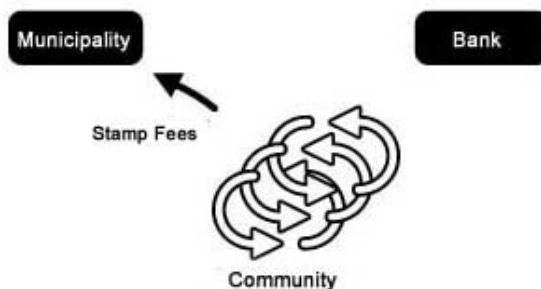
Local money could also be used for payment of municipal taxes. For this purpose the municipality accepted it in the ratio of 1 to 1. Some people used the local units to do so. If for instance 1050 units flowed to the municipality this way, it destroyed them and took 1,000 Schillings from the bank. This way a flow of local money from the community to the municipality arose.

In the course of the year the municipality receives a considerable amount of interest and stamp sales. It spends this amount on extra investments in education, public works etc.

As a consequence of the stamp costs the local money goes quickly from hand to hand and stimulates the local economy.

This whole process becomes even more dynamic if you consider that in the mean time in each following month 10,500 units are brought back into circulation, so that altogether even more units are circulating.

Income in Schillings for the community from the sales of stamps



Who had local money in his or her possession, had to glue a stamp on the back of the banknote at the end of the month. The municipality earned on this tax on unused money 1% per week of the amount in circulation.

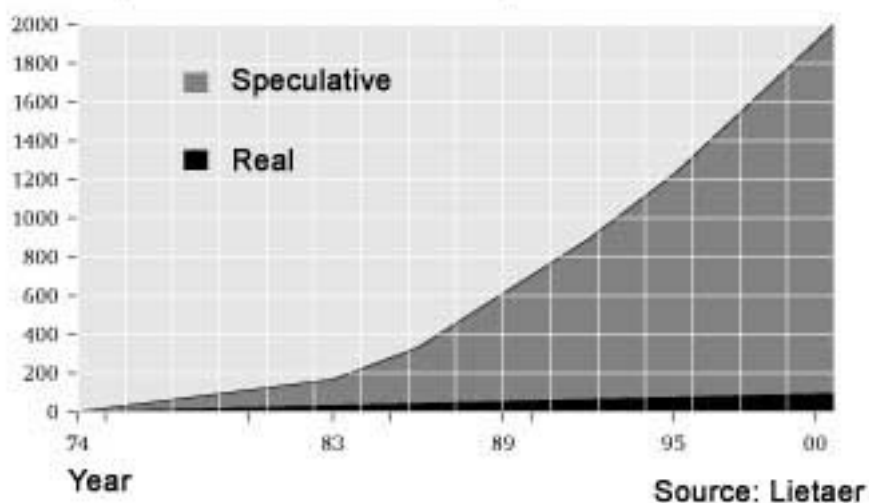
This tax caused that the local money went quickly from hand to hand. For nobody wanted the costs of stamps. Because someone paid them anyway, the municipality also received the first Schillings from the sales of stamps after the first month. This way a flow of Schillings from the community to the municipality came about.

Many states and cities in the United States wanted to copy this idea. Irving Fischer who at that time was the American economic guru who enthusiastically promoted it.

The U.S. was caught in the crisis and at one point in time President Roosevelt himself considered changing the failing money system in favor of a money system where instead of poor people, wealthy users of the system would be charged for the circulation of money. Roosevelt consulted with the Central Bank Managers. They answered: "Presumably it will work but keep in mind that it will probably create other unthinkable social issues". They were correct in that aspect because as in the Egyptian grain exchange system a balance would be created between those who needed money for business purposes and those who would be pressured into lending their money so that they would not have to pay for keeping it. Roosevelt was afraid to jump into that kind of commitment and the crisis raged on for years. After the Second World War the money system developed in stages to the present point in which the creation of money through interest against unimaginable debt levels has lead to a practically unlimited growth of money resulting in a continuing financial balloon like expansion, absorbing increasing amounts of money from the production-economy cycle. In this balloon-like situation astronomically large amounts of money are traded based on pure speculation. About a thousand times more money than is necessary for real trade and commerce is now circulating in the form of stocks, options or other legal tender. This balloon is causing enormous pressure on governments. Under no circumstance can governments allow the profit margin in the money markets to drop to the point where all this speculative money returns to the productive cycle where real products or services can be purchased. There simply are not enough consumer goods available to spend all that money on. An enormous shortage of consumer goods would take place, causing hyperinflation in no time at all. In fact, governments have no other choice but to co-operate with the ongoing inflation of that balloon. A true stock market crash reducing all that speculative money in one fell swoop to a fraction of its value would be catastrophic.

[Zap X.b. - Lietaer Graph]

Daily Total Currency Transactions



The misery in poor countries caused by the speculative flow of money has also produced some hope: the search for alternatives has been stimulated. People in many areas have begun to experiment with their own savings and exchange systems. Thus they improve their own living conditions while building structurally new developments. **[Zap F - How People Themselves Can Start A Local Economy]**

Historic models show that quite different money systems are possible instead of the present one: systems in which those with too much money have to pay for keeping it in their possession. If in this situation a continuous flow of money can be established, then prosperity for everyone will occur. This system has been brought into practice on a small scale in modern times.

G.b. Towards a New Development Strategy?

Increased production to supply the world market is the present strategy for economic development in the poor countries.

Competition with each other and the rich countries has begun after cutbacks, a massive sell-off of natural resources, and further lowering of wages. This strategy ignores the failing money system. Therefore it is not surprising that it does not work. More and more people are looking for different ways. Other money systems, systems like the ones where in principle the one in possession of money pays, but also other local savings and exchange systems already active in many areas could be just the way to get things going. **[Zap F - How people themselves can start a local economy]** Recent and future developments by Strohalm addressing the core of the present system also offer opportunities. **[Zap V - Strohalm's never-ending search for solutions]** **[Zap J.a. – Strohalm's Bonus System]** **[Zap I – Let's Trueque]**



"Share in the future."

For many it will be a true revelation when they discover what sort of fantastic possibilities could emerge if we make the money system into the spear point of a

new development strategy! That would offer a perspective on a society that would combine an increased standard of living with non-material riches of solidarity.

Strohalm, in co-operation with people all over the world, is looking into what sort of possibilities renewed monetary systems could offer, how they could be reinforced, which elements and variables could be entered into such systems and where we may be able to find examples that will inform, etc.

In this network there are for instance field experts and researchers from Venezuela, Chili, Brazil, Poland, Ireland, Thailand and Japan. We communicate through the Internet. We share analyses and work together in areas of research and actuality. The organization could use more support. Communication has to take place in at least two languages (Spanish and English) and preferably also in Portuguese, French and German. Our principal manuscripts are in Dutch! At this moment a lot of time is lost in the translation efforts. Perhaps you can help us as a translator? **[ZAP V.b. - Take Action Now]**

Because the organization is not yet in a position to offer financial compensation many of our partners in the poor countries have difficulties in finding the time necessary to think about these issues. In order to improve that situation we offer shares in knowledge. Through the purchase of such shares you assist in the financing of the organization. The fees mean more hope for the future.

It is worth the effort beyond doubt. We are in contact with researchers who have tremendous capacities, knowledge, insight, and often are in direct contact with the reality where inspiring developments are going on. In the organization the enthusiasm of one individual can stimulate another. Globally we try to support each other this way and attempt to make progress, step by step, in our search for new of money.

G.c. What you can do:

- Applying for memberships in consumer circles
- Local organizer (limited compensation)
- Potential consumer
- Becoming a donor to Strohalm
- Increasing the distribution of booklets
- Participating in / supporting the Latin American network
- Becoming a bonus sponsor
- Helping with translations
- Purchasing shares in research
- Adoption of an experiment
- Covering money in circulation: buy emerging Euros

[Zap W - Take Action Now]

H. Poverty experienced as a local crisis

In modern society the money system dominates the way the community is organized. When there is unemployment in a poor country it means that there is something wrong with society itself and the money system. Otherwise, local manpower would be occupied fixing local shortcomings while making use of local possibilities. But in practice there is an insufficient circulation of money since the rich are hoarding it, or it has left the country or the region. In short the poor are living in a local economic crisis, a crisis that can be attached to only one specific group of people.

Older people experienced the crisis that hit the thirties during the previous century in Europe. They remember the idiotic situation when factories had to close while there were plenty of people who were in need of their products. They remember that people became unemployed and ran out of money that they needed to buy the products. More factories went bankrupt and more workers became unemployed. Etc. In those days more than one family lived in a single house while the houses where they had lived in before now stood empty. At the moment the situation in many poor areas is comparable. **[Zap I.a. - Carlos Monaco]**

During those crisis years the British economist J.M. Keynes rediscovered the importance of purchasing power. For manufacturers it only makes sense to manufacture and invest in production when the manufactured goods can be sold. Therefore people must need the product and they must have the money to buy that product. In other words there has to be a demand and the purchasing power. When these conditions do not exist, when people have no money to buy goods then the combined existence collapses. From one day to the next factories may close down, homes are deserted and people become unemployed and destitute. The poverty created in this manner is really totally unnecessary. *Because there is still as much need for the products as before, there are still as many workers as there were before and the raw materials and production methods are still sufficiently available.* Only there is no money to support the exchange. That is the core of an economic crisis: a poorly working money system.

In reality many of the poor continuously live under such an economic crisis, even when this crisis is only local and associated with one specific group of people. Much of the poverty we see on TV has the same origin: in the communities supply and demand as well as services are present but the lack of money as a method of exchange blocks the transactions.

In contrast to the crisis of the thirties this time the crisis is largely caused by external influences. During the thirties a country could still stimulate purchasing power and kickstart the economy through the influx of government reserve money. That spending would be covered, or returned, in the form of extra income taxes. Today however, the international trade has become so dominant that the poorer countries no longer have this option.

When they bring extra money into circulation (to stimulate purchase power) that money quickly flows out of the country, it is spent on subsidized meat from the European Union, medical prescription drugs and luxury items for the rich people. The government receives very little money in taxes in return.

When money disappears from a society, its structure also disappears. When people no longer have money to pay each other for goods and services, then mutual trade stops. Unnecessary poverty develops because of a malfunctioning money system].

It would be good for us to realize that when poverty goes hand in hand with unemployment; it is not because of a development problem but because of an organizational problem. The poor have every reason to work. A slum area needs workers to build walls and roofs, diggers are needed for sewage systems and lay streets. Although all these skills are available, they are not being used, because there is no money for wages. Good organization is totally absent due to a discrepancy in the money system. Since the money flows out of the country a situation develops in which people are no longer able to work for each other and thus become unemployed.

There is only a means of exchange (money) for activities that will sustain the expected interest level of the world money market. People continue to fall behind in self-sufficiency and direct exchange due to a shortage in the means of exchange. They no longer have the opportunity to specialize themselves in the products for which there is no market. The poverty level increases, the possibility for self-reliance has been cutoff, the only chance to create economic development now lies with foreign investment. Now that we have no choice but to conclude that 'our' money system is the reason why local development is systematically being hindered, it is time to take an entirely different approach! It is time that we study examples of how people with the aid of local exchange systems are managing to extract themselves from the spiral of misery. **[Zap F – How people themselves can start a local economy]**

I. Let's Trueque! Argentinean system demonstrates the possibilities of local exchange systems

There are many examples where people decided to take matters into their own hands and managed to create a solution solving the problem of the absence of purchasing power. One of the most striking is the Argentinean Trueque.

In Latin America, a steady increase in the build up of all sorts of *solidaire* economics is emerging. A few years ago we attended a conference in Buenos Aires. I used the opportunity to pay a visit to the Argentinean *Trueque* Exchange system. A report:

Horacio, my host welcomes me with open arms. I gave him with a few books about money I had taken with me and which he accepted with great enthusiasm. He insisted that he had to pay for those books. I don't understand: it is a present!

But he keeps on insisting: 'I want to pay you in créditos, you can use them yourself'. While talking Horacio produces his wallet and starts counting out all kinds of multi-coloured pieces of paper. A large green one represents 10. A smaller orange one 5. But also a blue one for 10. And another yellow one for 5. All sorts of different notes!

The next day Horacio takes me to the local market. I see a small stall with a man who has a pointed mustache selling food, I realize that I have an appetite. I approach him

and I buy a bun. Just as I am about to pay the man, Horacio intervenes. "Are you thinking about your créditos?" he asks me. He is right, I was looking for my pesos out of habit. Mr. Mustache is quite willing to accept my créditos, gradually I discover that just about everybody in that market accepts créditos. There is a lively trade going on and just about everything can be paid for in créditos.

A little later Horacio explains to me that several markets in Buenos Aires accept créditos.

There is even a market where products strictly from that neighbourhood are sold for créditos. There is also an advertisement flyer offering all kinds of services: baby sitting, repairs, courses and what have you. All to be paid in créditos.

The créditos are the official means of exchange in the *Red del Trueque*, "the exchange system". Trueque started a few years ago in areas where people started a swap system and kept track in a folder who owed what to whom. A did something for B, B did something for C and C did something for A, then the mutual obligations were erased from the folder. As less money became available the more people embraced the swap system. This way they could even out their needs and possibilities without ending up at home unemployed. But it was not very convenient. That's why people in the Bernal area decided to stop the book keeping and instead use printed pieces of paper with values of 1, 5, 10, and 20 "credits". (créditos). Everyone in this area who took part in this system was given a total of 50 créditos. Thus bartering was now possible without having to write it all down. Because people knew each other reasonably well there was no fear of fraud. The idea caught on in other areas and within a short period of time all kinds of coloured pieces of paper in various sizes representing different values and printed in various neighbourhoods started to show up. Since many citizens in bordering communities started to accept these créditos it did not take very long before the créditos got mixed up. In the end it did not matter very much. What was important was that people had an easier way of reciprocating in baby sitting, making repairs, offering or taking courses, making pies and swapping other products, etc. Off course fraud became inevitable. At one particular moment people noticed that an unusual amount of créditos representing a particular area had started to appear. That was not a coincidence. It turned out that people had become so enthusiastic about the Trueque method that instead of 50 créditos 500 had been handed out. The recipients had purposely started to shop with these créditos in other areas. When this became clear no one accepted these créditos any more. But for many it was already too late, because they now had many of those créditos in their possession.

This became a rather large problem, but a solution was found. Local committees decided to print new and difficult to falsify créditos and give the inhabitants of their area a one time opportunity to exchange their useless bills into the newly printed créditos. In the end this little bit of fraudulent behaviour did not turn out too badly, because when the extra means of exchange started to circulate more people were able to purchase things from each other. It stimulated mutual trading and the loss became barely noticeable.

For many Argentines the créditos fill an important gap because of the scarcity of the Argentinean peso. Pesos are scarce because the Argentinean Government has

to pay huge foreign debts and wants to keep the value of the peso equivalent to the American dollar. Therefore they can not circulate more pesos than the amount of dollars the government can permit itself to buy. As a result there is a shortage of money, attributing to a slump in local trade. Many companies have already ceased to exist. People have become unemployed and no longer have an income. An economic crisis out of the booklet. [\[Zap R - Ten ways money makes us poorer\]](#) **[Zap L - Our theory on interest]**

The créditos offered to the local population give them ample opportunity to work for each other and everybody wins. At this moment in Argentina more than half a million people deal in créditos. A few things have changed since the early years. The bills now difficult to falsify have become more important. However you will still find the original local bills in many areas. Often both types are commonly traded. Everybody can decide for him or herself whether to trust (or accept) the bill offered in pay by someone else. Sometimes there is a problem, is a bill false or has the originating area stopped trading while their créditos are still in circulation. But in the mean time an achievement has been created: these people help each other, they work for each other and it is all done with paper that has no value as such!

I.a. Carlos Monaco

The amount of participants in the Trueque system is steadily growing. In many areas people are busy, with the help of créditos, setting up new enterprises or rebuilding old ones. With the aid of a créditos credit Carlos Monaco is looking forward to reopen his shoe factory in his neighbourhood. Others are busy trying to convince local authorities to accept créditos for taxes owed. Some municipalities have already accepted this idea. Local money can now be found all over Latin America. It is an important element in the system that is building an economy of solidarity.

J. Micro Credits: A new future with little money

The issue of very small loans, too small in value for commercial banks, can be pivotal in the lives of poor women who need a little help in earning their own money. Micro credits are offering a growing number of people the opportunity to become a little more self-sufficient.

Mary Akoth lives in the town of Ahero, situated in the poor countryside of Kenya. She is thirty-eight years old and has five children. Her husband deserted her years ago. After that her life became a daily struggle in supporting her family. In 1992 she became a member of the Nyando Women's group. She received advice and a loan of 200 Kenyan shilling (about 4 dollars worth). With that money she started a small street business in chapatti's and tea. Quite quickly she made a profit of 40 shilling a day. Half a year later she added the sale of rice and beans. Her clientele increased rapidly. She asked the town council for a small plot of land to put up a kiosk. Soon she employed some one to assist her and after a short while she added two more people to her enterprise. With the aid of a loan of no more than 4 dollars she had become the owner of a profitable business. She now makes a profit of 8 dollars a day. She can pay the rent and send her children to school. She says that she has rediscovered her dignity. (From *Microcredit Summit 1997-Institutional profiles*.)

To make some money you must be able to sell something. First you need to buy raw materials: bamboo to make chairs, flower to bake cakes, textiles to sew clothing. But where do you find the money for your investment. In the poor countryside of the countries in the south you go to the only stone house in the village. Somebody who has money and is willing to lend it lives there. This money grabber, the loan shark, demands a very high interest rate. Sometimes as much as 50% for one day. You'll understand that in cases like this all the profits end up in the hands of the loan shark while the people remain in the never-ending poverty spiral. These people do not qualify for a bank loan. The size of the loan is too small and not profitable enough for a commercial bank. On top of that: the bank does not know them. They live in a slum village where streets have no names and houses are without numbers. They don't have any collateral and in any case the banks simply do not believe that poor people can be productive. Up to a few years ago there was no alternative but deal with the loan shark. Until the Grameen bank in Bangladesh that specialized in small loans was set up. That turned into a huge success. Countless people could now be assisted and the payback percentage of 90 percent is very high. Ordinary banks seldom reach that level. It turned out that people in disadvantaged situations were extremely inventive and were determined to achieve something.

Nowadays, in many poor areas, there are many micro-credit banks like the Grameen bank. In many cases the members manage the banks themselves. After an initial startup-period during which the bank is kept solvent with donor money, the participants return money themselves. These credits allow the members to earn money but the managing group asks its members to save a part of the profits so that other members may be able to borrow. Gradually this money becomes the basis for new loans. However, not all is rosy in the world of Micro-credits. An important disadvantage is that people who receive assistance through the micro credit system are by nature enterprising, active individuals. They represent an important segment in the collective and social values of a community.

They tend to direct their energies more towards a formal economy and this can become a drain on the community. In the more formal economy there is often not enough room for these individuals who could create spin-offs directed at other community members. And with a loan, someone may be able to improve his production methods but that does not mean that other community members can afford to buy his products. In other words: micro-credits improve the production capacity but they don't guarantee purchasing power. Purchasing power can not be ignored as the driving force in an economy! **[Zap H – Poverty experienced as a local crisis]**

Some form of a bonus system could be an important addition to micro-credits. Strohalm is looking into a way out of these dilemmas by combining the micro-credit system with local exchange methods that could augment the local economy and improve the social structure, as well as production methods and create a higher level of purchasing power.

J.a. Strohalm's Bonus Micro Credit Program

The Bonus program mobilizes grant funds for local development projects through the use of a special local currency voucher which is backed in full by program funds held

in reserve to match local production with local demand. National currency is only used for necessary non-local purchases. This special voucher circulates within a local network of businesses, individuals and entrepreneurs, increasing the impact of program funds for local social and economic development projects, increasing the demand for locally-produced goods and services, while increasing the amount of money that circulates locally without causing inflation in prices. This way the same money serves three purposes: completion of a local development project, introduction of locally circulating vouchers over a long period of time, and the extending of micro-credit possibilities. The creation of a community economic network increases mutual cooperation in creating a multi-faceted socio-economic dynamic, which we call Integrated Development.

Background

Bonus, or 'Fomento' as it is known in Spanish, is a concept originated by Bruno Jehle of the INWO stable economics institute in Switzerland for use in India. Although it has not yet been implemented in India, a Strohalm Foundation pilot project is now active in the city of Fortaleza, Brazil in partnership with Banco Palmas, a successful Community Bank in a cash poor suburban neighbourhood. There are a number of related models, such as "Flash Cash", a cheque currency which is backed by savings held in Tontines or Credit Unions in Cameroon as well as in Brazil (also a program of Banco Palmas).

In the last two decades, locally circulating units of exchange, or 'local', 'complementary', 'community' or 'social currencies' have proven themselves very capable of activating local communities to build socio-economic solidarity. The Trueque movement in Argentina has, for example, over 6 million members and has facilitated billions of US dollars worth of commerce without any institutional support and no national currency, using only locally-printed interest-free coupons as a means of exchange. There are now 20 countries in the third world where complementary currency programs are active, in thousands of communities. Much of this is documented at <http://www.appropriate-economics.org>.

At the same time it is absolutely necessary to keep innovating, to realize better and more robust methods of emitting and backing these locally circulating vouchers. The Bonus method is a step in creating a fully-backed, community-administered local currency voucher.

Problem Statement

With a typical local development program, funds flow from the donor to the local NGO, to the stores to buy the goods from non-local sources or to the laborers who work on the project who spend their money at non-locally owned businesses and then out of the community. Eventually all of the funds drain out of the community and the local NGO is looking for a new program to do in order to receive further funding. The local money supply diminishes to its previous level and the local economy is suffering again as there is no medium of exchange to facilitate exchange in even locally-produced goods and services.

Instead of focusing on community assets and how they can be mobilized to solve local problems, communities focus on what they are lacking and describe their

community in negative terms in order to attract the attention of external aid organizations, leading to a “donor mentality” and a lack of social cooperation in defining community goals and carrying out the task of achieving them.

In addition to this, we see two vicious cycles, one economic and one social that hamper local socio-economic development. The economic vicious cycle is that because there is an insufficient supply of money at the local level, the risks to investors and lenders are high and they are reluctant to invest or lend. Without access to credit, however, people can't work and communities can't develop and therefore the local money supply remains insufficient and people can't afford to buy what they need. The social vicious cycle spins off from the economic: since economic interaction is low, socio-economic dynamics are weak, making it harder for the community to cooperate on local development projects. For example, you can build a school but you can't buy books, build a clinic but can't pay for a nurse or medicine. Many local buildings sit idle once they have been constructed and the funds spent on construction have drained out of the community.

What is needed is the creation of a dynamic that takes advantage of a multiplier effect to increase the local circulation of money and increased activity throughout the community, the development of a local network that can be used to increase the range of socio-economic benefits of solidarity, support for local investment in local production opportunities and facilitation of community cooperation to achieve local development goals.

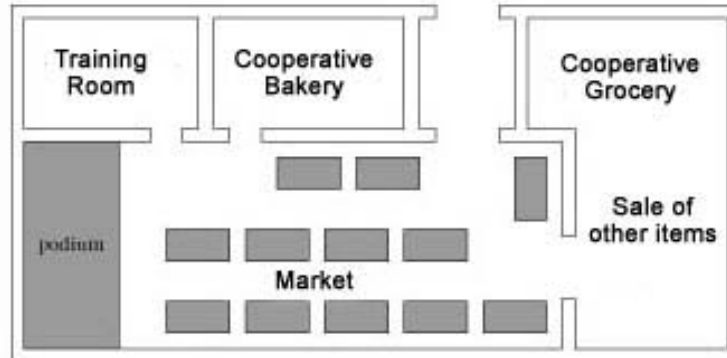
Basic Characteristics of the System

1. National currency is used only to purchase non-locally produced materials.
2. Loans in national currency at low or even zero-interest are given to local businesses and entrepreneurs in the form of micro-credit.
3. Local currency vouchers, backed by national currency funds held in reserve, are paid to individuals and businesses for work on projects.
4. Businesses that receive local currency vouchers can use them to repay their micro-credit loans or re-circulate them in the local economy until they are received by someone who can use them to repay their loan.

Required Elements

1. A Bonus Implementation Team which is led by the local financial/micro-credit institution, with membership and participation of Strohalm, one representative from each NGO that receives funding.
2. The Bonus Implementation Team is either divided into or creates two sub-committees: the Project Management Committee and the Credit Committee.

The Bonus-Viamao is now looking for a fund that it will subsidize the trainers of the workshops. The half of the salary of the trainers is then paid in local money, so that the half of the subsidy is left over. This money is borrowed to co-operative businesses. They are allowed to pay back these loans in local money. Because of this they can sell their products in local money.



This way the money of the workshops works in three ways:

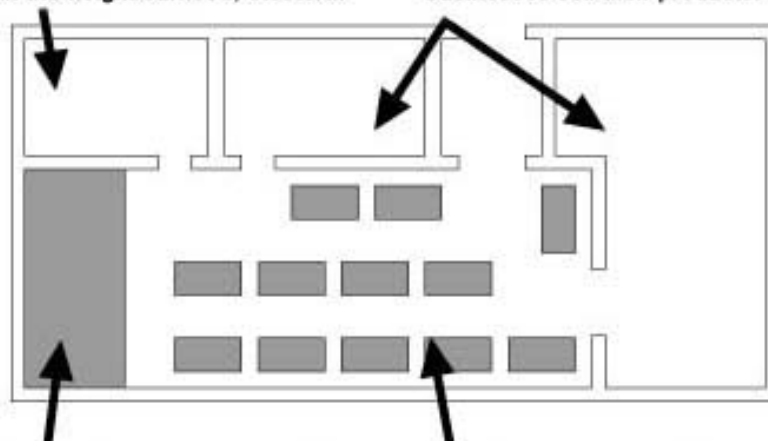
the workshop is paid with it,
the businesses receive money to invest,
and the local trade is stimulated.

Bonus in Viamao

Floor plan of the community center in the former supermarket in Viamao, where people are working on a BONUS scheme.

This space is used for workshops.
Here inhabitants learn how to start
a business of their own, how to
make products that are in demand
in the neighbourhood, etcetera.

In these rooms co-operative
businesses sell their products.



On the stage artists, musicians,
entertainers and acrobats perform.
In doing so they make the visits to
these markets more attractive.
With the rental proceeds of the
tables the artists are paid.

Room in which a kind of flea market
is organised, where the inhabitants
of the neighborhood can sell what
they do not need or what they make
themselves. The mutual trade is
paid in 'local money'.

Advantages

Local currency vouchers have the important aspect that they facilitate the meeting of local needs with local resources because they mediate transactions which would otherwise not have happened. This results in various advantages:

1. For businesses, there is the advantage of increased turnover and longer-lasting impact of the program as well as increased access to interest-free or very low-cost local capital.
2. For individuals and families, there is increased employment and income, meaning an increased access to goods and services, and the ability to repay loans.
3. For the donor and implementing organization, there are the increased impact of their funds which can support longer-term development initiatives within the community.
4. For the community, or local development project, these three elements are mutually reinforcing, encouraging local investment and strengthening community social and economic dynamics.
5. The use of an internally-circulating voucher generates an increased money supply, creating additional economic activity than would otherwise be achieved.

Project Goals

1. To complete a local development project (construction, etc.) while ensuring longer-term spin-off benefits.
2. To combine local circulation of a voucher, local micro-credit, and local social expenditures into a self-reinforcing dynamics.
3. Issue a local currency voucher backed by national currency funds.
4. Encourage local circulation and increased multiplier effect because of the local currency voucher.
5. Introduce other projects which take advantage of the long-term circulation of the voucher.
6. Increase opportunities for local production to satisfy local demand.
7. Increase the impact of external funding, or to develop sound models for mobilizing local funding.
8. Build socio-economic solidarity through the participants through a mutual support network.
9. Reduce the cost of finance for local businesses.

Project Results

1. Increased multiplier effect on the economy of the local area.
2. Increased economic activity, local production and broader circulation of project funds.
3. Increased employment and income-generating activity beyond the lifespan of the project.
4. Increased sense of community socio-economic solidarity.
5. Increased length of time national currency circulates in the community before draining out.
6. Construction of new community infrastructures.

7. The level of acceptance of the local currency voucher has been raised to the point at which local businesses accept loans in local currency vouchers.

Process:

Phase One

1. Identifying donors, projects and local implementing partners, securing support for the program.
2. Initial data collection & social research.
3. Design and printing of local currency voucher.
4. Establish Bonus Implementation Team, divided into two components of the Credit Committee and Project Management Committee.

Phase Two

5. Implementation of the local development project.
6. Introduce micro-loans in national currency, and local currency voucher currencies through spending on the local development project.
7. Support expanding the network of businesses to encourage continual circulation of the voucher. This is made easier by encouraging the Credit Committee to follow two criteria: give loan preference to businesses who can source 75% or more of their labour and materials from local sources, and perhaps secondly that the borrower is connected in some way to the lender in terms of providing services to the lender (construction, materials, etc.)

Phase Three

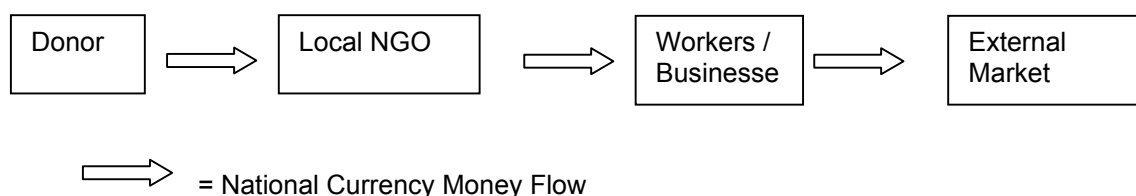
8. Local development project is completed.
9. Seek further inputs of external project funds.
10. Encourage local, regional and provincial government involvement in the program.
For example, by spending their local development funds through a Bonus program or by accepting the local currency voucher as a tax payment.
11. Support expanding the network of businesses to encourage continual circulation of the voucher. The Credit Committee or micro-credit institution plays a central role in this.

Visual Presentation of the Bonus Concept

The conventional money flow of a local development project:

In a conventional community project (e.g. the building of a school, an educational program, the construction of sewers, an employment project, a micro-credit program, etc.) the money spent on the project disappears from local circulation very quickly as the funds are spent on goods which are provided by non-local sources.

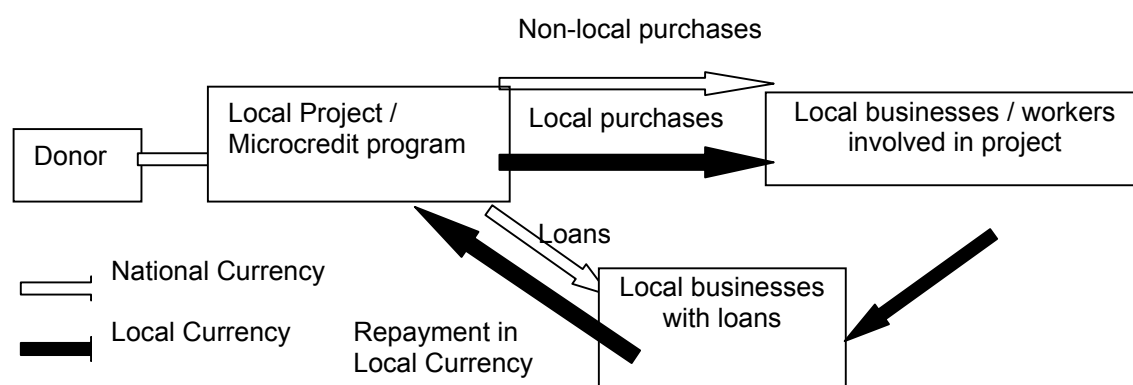
This is represented visually as follows:



Even when the project exclusively uses local labor, local materials and local businesses, the new purchasing power drains out of the community within one or two spending cycles, as soon as services and goods are bought that have been produced outside the local community. Once the project has been realized, the funds have been used up. Not so with Bonus.

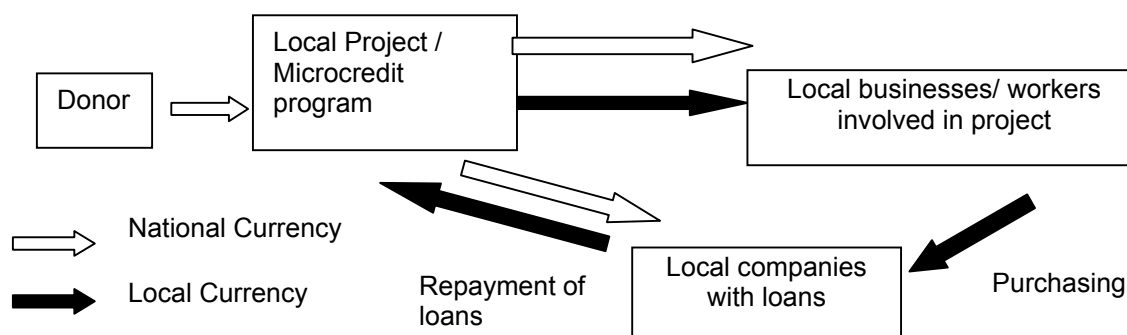
1. Initial Structure and Flow of the Bonus Program

To prevent the money and therefore purchasing power from draining from the community, the Bonus method pays the costs of the project as often as possible in the form of a local currency voucher which is specially made. In the Juncto Palmeira in Fortaleza, Brazil, 80% of the necessary labor and materials for the construction project can be obtained locally. The other 20% are costs for construction materials that cannot be manufactured in the community. The 80% local spending is paid for with local currency vouchers. The national currency that is freed this way is lent out to local entrepreneurs in the form of micro-credit who can expand their productive capacity to meet local demand with it. Two developments have been set in motion: the local businesses are stimulated thanks to the micro-credit, and the project fulfills a social goal while offering employment.



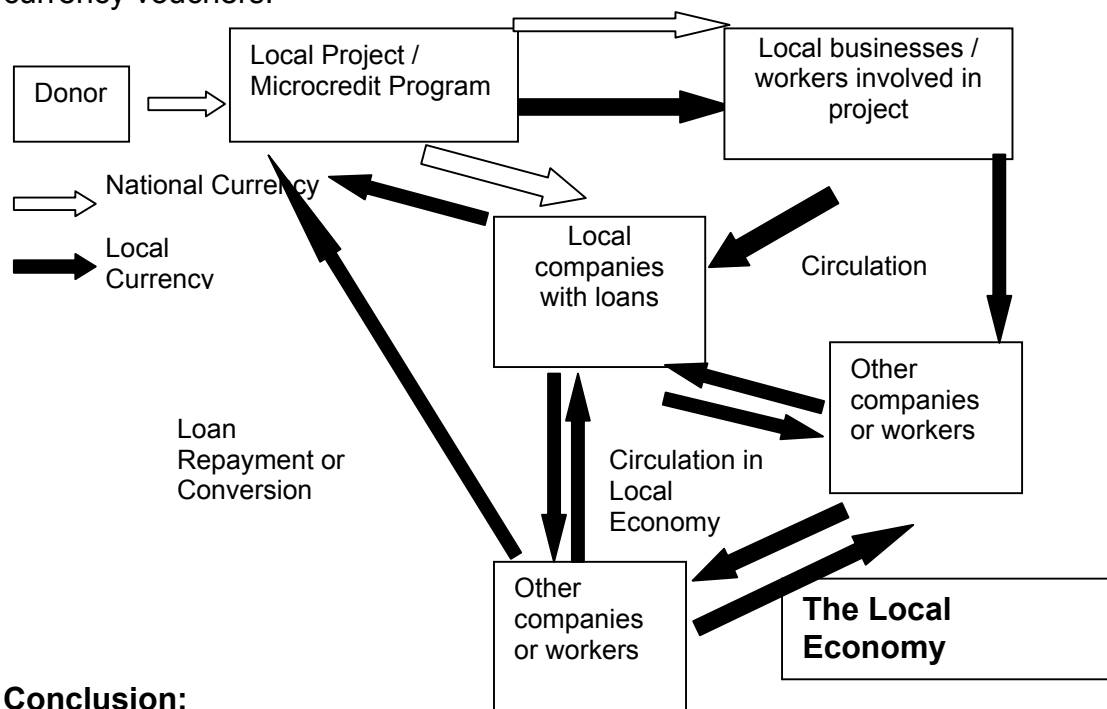
2. Secondary Flow of the Bonus Program:

The local businesses can pay back the micro-credit loan in local money and will therefore be willing to accept the local currency voucher. The local currency vouchers earned by the people and companies who have supplied the project with goods or services will find their way to local businesses and entrepreneurs.



3. Tertiary Flow of the Bonus Program:

Since there is no doubt that local businesses will accept the local currency vouchers, other businesses and workers will also accept them, knowing they will be able to spend them or change them into national currency. Some of the local currency vouchers will eventually make their way back to the project management or micro-credit organization as payment for the loan, or changed into national currency, however ideally they will keep on circulating. At the moment that a loan is repaid or money converted, the local money is held and does not return to circulation because it is no longer backed by funds held in reserve. Therefore, the idea is to encourage the continual circulation of the local currency vouchers.



Conclusion:

While the Bonus program achieves the same goals as a typical local development or micro-credit program, it also realizes several benefits over a typical program. These are:

- Increased economic benefits of a project on a community through an increased multiplier effect of the on the economy of the local area.
- Increased range of opportunities and benefits from multiplying the economic benefits of a project over a longer time-frame than the original project.
- If the local currency vouchers are accepted widely, this gives the possibility of the micro-credit program to expand its credit portfolio substantially, without being dependent on external capital loans at interest.
- Increased demand for local goods and services, which benefits local employment and incomes. Again, this effect will be durable if a sufficient level of acceptance of the new local currency voucher has been achieved.
- Increased economic activity, local production and broader circulation of project funds.
- Increased employment and income-generating activity beyond the lifespan of the project.

- Increased sense of community socio-economic solidarity.
- Increased length of time national currency remains within the community before draining out.

Without the use of the Bonus model, only the initial goals of the project would have been achieved. The added benefits are bonuses, which explains the name of the method in English (Bonus). In Spanish, the name 'Fomento' has been given, which is also related to the idea of a Bonus, but adds the element of motivating and improving the project to achieve the added benefits.

The Bonus concept does not end here. The cycle we just described encourages both consumers and companies to become more familiar with the idea of local money. The government or donors can use this familiarity to implement new projects according to the Bonus concept. This can involve issuing interest-free credits (or low-interest credits) in the form of vouchers. Or, the Bonus can be considered as a preparation for more complex consumer-business-networks, such as the Consumer-Commerce Circuit or a complementary secondary Provincial or National currency as is now being done in the Province of East New Britain in Papua New Guinea as well as in several Provinces in Argentina. The effect in all these cases is an immediate impulse to the local economy and a significant reduction of financing costs for all involved.

While the Bonus concept is over 10 years old, Strohalm Foundation has enhanced the model and has made it operational in Brazil. Strohalm sees Bonus as a technical improvement over other types of complementary money systems which are not backed by national currency, making these systems better able to link directly with and therefore integrate better with the existing money system.

PART TWO

K. Leaving the money that creates unnecessary misery

The successes of the local exchange and savings systems indicate that the present money system has gone bankrupt. Before we delve deeper into alternate possibilities we first look at how the present system is causing problems: how free money becomes expensive and also how it withdraws vigor from poor areas.

Everyone can participate in an exchange system such as Trueque. **[Zap I – Let's Trueque]** There is no barrier, because it is not essential for an enterprise to make a profit since there is no need to earn built in interest costs. Everything is possible as long as the activity itself does not operate at a loss. This is in contradiction with the present money system. In the present money system any activity must take in an extra profit that at least matches the interest level. This has enormous consequences: it eliminates a very large number of activities, it promotes shoddy products and it demands increased production. Otherwise production stops or does not start at all. An investor would prefer to deposit his money into a bank. We have grown so accustomed to this situation that we are quite prepared to blame the victims: their work was not efficient enough. But the reality is that this additional obstacle also confronts people who already live in an environment where a local crisis exists. In countries where poverty and unemployment exist the authorities have no other choice as long as they accept this system. They keep the interest high so as to keep their currency attractive. In poor countries interest rates well above 10% are quite normal. For the poor people this is absolutely fatal. The opportunity for them to find work or to specialize themselves has been artificially reduced.

Because a lot of activity does not bring in enough money to cover interest charges, workers engaged in these activities remain unemployed. Let us examine if there is a good reason for that. The largest part of the money that is made available by the banks for loans is new money. It would appear to me that in any case there is no real good reason to ask for interest on this new money. It is not essential to sell numbers that magically appear on a computer screen at a high price. Why is the interest rate on new money not 0%? Why do governments accept interest rates that make it impossible for many to earn their own money? What is more important than the possibility for the poor to have an opportunity to develop themselves economically? The reasoning followed by most economists and governments is that interest is necessary in order to avoid a collapse of money circulation. With the present system those who have money are tempted to circulate their money through investments and loans. Those in possession of money will lose all motivation to part with their money when interest rates decrease to a very low number. When interest rates are low it is better to hang on to the money in case a more lucrative opportunity presents itself elsewhere. They keep their money in a safe or clandestinely send it abroad; in short the national economy becomes severely compromised. In the present system an interest rate that approaches zero means big trouble. Every government follows a policy that is aimed at keeping the interest rate sufficiently high so that those with money won't remove it from circulation. Even when it means that much meaningful work becomes non-profitable and is therefore not started, that in many poor areas unemployment is caused, that the capacity of many people remains unused and that poverty results. Make no mistake, we are talking about hundreds of millions of jobs!

In poverty-stricken countries the international money system has developed itself into a pump of sorts. On the one hand it creates unnecessary unemployment, while on the other hand high profit margins are extremely effective in skimming off any form of gain. This skimming and concentration of extorted profits accelerate the progress where the rich become richer so that they continually gain even more on the poor. All this is packaged into a very clever scheme: It is not just run or stop. It is run or collapse! Rest and a steady pace are impossible. It is the beginning of a crisis. **[Zap-H- Poverty experienced as a local crisis]** This is a reason for Strohalm to start looking for a kind of money that can function without interest rates or an extremely low one. A system that won't connect countries into a spiral of misery. We should not allow ourselves to accept that large masses of people are unemployed because the money system cannot operate without interest! That even the rich are forced to continue to renew and grow in an increasingly destructive pace making it impossible for the poor and the less ambitious to join.

Governments appear to be trapped in this money system when they decide to address the problems of the poor. It is for "technical" reasons that they must participate in a condition where new money must remain unnecessarily expensive. They have the choice to either: financially assist in the increase of global growth, or face a crisis due to the outflow of money.

The money system organizes that what should be a social society into a society where everyone has to compete for scarce money. Even more to the point, as interest continues to withdraw money from the system, it should follow that money makes itself even more scarce! **[Zap L - Our theory on interest]** And this is not a disaster; that choice was made and we are sufficiently aware of it. **[Zap M - The price we pay for wealth]**

I think that we should be able to find hope in the fact that people in Thailand, Argentina, Nepal, Peru Mexico, Kenya, Amsterdam, Zierikzee and many other places are looking into ways that are very different. Many are experimenting with new ways of administering mutual trade, with new methods of economic organization. **[Zap F - How people themselves can start a local economy]** Often the influence on the formal economy is of little consequence, but the efforts represent little jewels of cooperation that bring people together again. Sometimes, slowly but surely, in the process these efforts produce noticeable results. In Argentina hundreds of thousands of people swap with money they created themselves. **[Zap I – Let's Trueque!]** There are tens of thousands of cooperative businesses all over Latin America. **[Zap Q - Cooperative Industries]** In the mean time The WIR in Switzerland has grown into an organization with a three billion Swiss Franc turnover, in which thousands of businesses practice mutual exchange. Not only have more and more people become aware of how destructive the present system works, new possibilities are becoming increasingly known. **[Zap T - WIR] [Zap V.a. - Exchange and Research Network.]**

L. Our Theory on Interest

Throughout history the consequences of interest are obvious. Even today people are pushed into slavery because of interest charges. This chapter addresses a few results of the interest aspect in the money system.

The mortgage on our home is paid back two perhaps threefold. Once to pay back the borrowed amount, the rest is interest. We accept this as normal. I also think that you feel that interest charges are not only unavoidable but also reasonable. But what would you think of your neighbours, if they were to lend you a pound of butter and the next day asked for two pounds in return? You would not expect that from your friends and neighbours. When you think about it you would feel that the demand for interest counters healthy social relationships. Interest reflects inequality. It encourages dependency because there is a good chance that when two pounds of butter need to be returned one would quickly end up without butter and will need to borrow again.

L.a. Usury is everywhere

At present interest is a generally accepted phenomenon. We think of a banker as a gentleman, we are not too quickly inclined to think of him as a usurer or an extortionist. And on a personal level he isn't. Most bankers are sincerely convinced of the necessity of banks in economic traffic. They have little or no notion of the disastrous results that applied interest charges are causing not only to the borrower but also to others. A friend of mine has what may be called "Problematic debts". He did not manage his money well; he also made mistakes in his business. He has finally made a payment plan that leaves him 50 Euro per week to live on. But, he says: "I'll be able to pay everything to the last penny". He thinks that it is logical that he must pay a hefty interest charge; after all, it was his mistake.

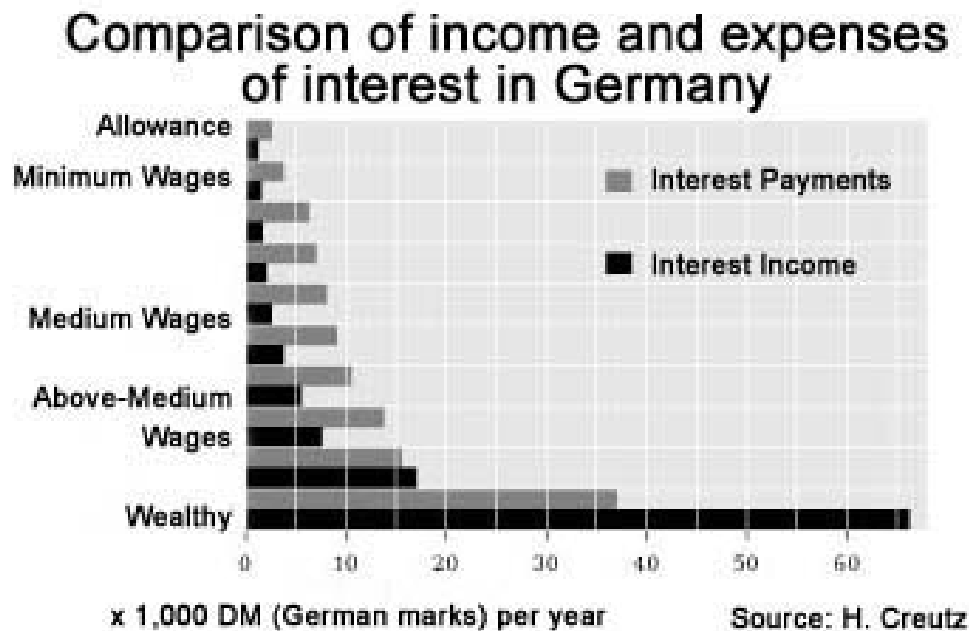
During the nineteen seventies when Nixon scrapped the gold standard the European banks reacted with the creation of millions of dollars. Borrowing money became cheap.

Many developing countries borrowed money in those days. A little later the dollar interest rose to unknown levels. Do we realize that for instance Latin America already has paid back its debt more than threefold? However owing to interest charges the total debt has increased. Interest on top of interest has shaped the debt into an eternal calamity. **[Zap S.e. - Blasting Off From the Gold Standard].**

The subtlety of the present money system is that it abuses the capacities of precisely the most enterprising people. Since day one they are used to soak away the interest out of society. They receive the loan and they are charged with interest. In general these people are able to find the money to pay interest charges. In fact these enterprising individuals have found a way to make others pay for these interest charges. But this does not mean that after all the payments the interest charges have vanished. Quite the opposite! The interest charges have been calculated into the prices of the products. While the entrepreneur has managed to eliminate his debt and charges, the cost of the interest charges continues to infiltrate the production chain. In the end the poorest of the poor still pay 25% more in costs than is necessary. This phenomenon escaped catholic moral theologians when it was decided that interest charged to enterprises no longer needed to be considered as usury. The entire misunderstanding is caused by the fact that we have the idea that the payment of interest (when borrowing) and paid interest (when saving) cancel each other out. You save a little you borrow a little. Most of the money that is lent is new money, but even when this is not the case, then it still is not correct to think that way. Although some people save and manage to make some interest most people borrow more than they

can save, even when pensions are vectored into the equation. The hidden interest in products, in housing and in taxes causes the scale to tip. It appears that when all income and interest payments on savings are added, eighty percent of the people still pay out more interest than they'll ever receive. Ten percent manage a reasonable balance and only the wealthy ten percent make money on the interest system, they really rake it in!

[Zap X.c. - Creutz graph]



In reality the money flow from the poor to the wealthy, as indicated in this graph, is often glossed over. More recently we see that many people with somewhat above average incomes have increased (mortgage) debts, while the values of their houses, stocks etc are also increasing. As long as stocks and houses increase in value it would appear that we become more and more wealthy. But this wealth is not a number; it is the access to products, services and home ownership. The debts do not disappear when the stock markets and home values collapse.

L.b. Solon, the Greek Economist

Many prophets and philosophers have rejected interest on moral grounds. As we discovered in the previous chapter interest appears to be disastrous from an economical point of view. It eliminates interpersonal relationships. Perhaps this was already better understood many centuries ago. Several centuries before Christ, agriculture in Greece had come to a total stop. Because of interest charges, mostly paid to city people, the debt load for the farmers had gotten so out of hand that they could no longer pay their debts and were forced into slavery. Their farms became the property of the rich city folk. But city people don't understand farm work and slavery did not contribute to agriculture. After a while harvests were reduced. Now people in the cities became threatened. To avoid total hunger and chaos the city people appointed a certain Solon as advisor. Solon, who claimed to have the answers to the crisis, was someone from their own circle. His thinking was somewhat radical but

when the rich realized that the situation could not continue they were quite willing to accept his reasoning. The new leader realized that a healthy countryside is a countryside without debts, where farmers who understand the business of farming must make their own decisions. Not slavery but the farmer's ambition to improve himself is indispensable for a vital countryside. That's why Solon introduced drastic measures eliminating existing debts. To avoid new debts he made interest charges illegal. Consequently, Solon was successful in averting a catastrophe. Solon's decision to make interest charges illegal remained in power for a long time in the East Roman Empire and perhaps this was the reason why the system still functioned long after the fall of Rome.

In a way history is repeating itself. Once again agriculture suffers under the pressure of debt. Only this time it is happening on a global scale. Because of interest and an enormously growing debt rate, the farmers in nearly all countries feel the pressure. They are forced to maximize the utilization of their land resulting in a too intensive use of the soil. Forests are cut down and land that is not suitable for agricultural purposes is turned into farmland. In nearly all the tropical countries fertile land is washed away by floods. For many farmers the future is bleak or non-existent, they are moving to the cities.

Even in the Netherlands, the farmer's debt is enormous. Many farmers receive social assistance. Production has been increased to unknown levels. In the Netherlands an unstable situation has developed. At present agriculture can only survive with stressed out farmers, artificial fertilizer and chemicals and much animal suffering. A new Solon is not expected. This time the catastrophe is not going to hit the population quickly enough to have the effect of some sort of wake-up call. A new strong man won't solve anything. Country leaders no longer control the global money system. Even bank Presidents work within a system dictated to them by the global financial market. Counter measures are quickly absorbed by the markets and have no effect. **[Zap S.b. - Mervin King]** It is an elusive complex of partial interest. That's why it is so enjoyable that economic and technical developments are now creating totally new developments of their own. To be precise, as consumers, it is possible for us to renew the money system.

You can read about that in later chapters. **[Zap U - Consumer Commerce Circuit]** For the time being we'll stay with the phenomenon of interest.

L.c. The Consequences of Interest

Books on economy teach us in particular how important interest is. It is because of interest that money goes to where ever it commands the highest interest rate and thus improves its efficiency, it is called. Interest is the cost of money. And interest keeps money in circulation. That is one side of the coin. But there is also another side.

A series of consequences arranged in order (of importance).

L.c.a. Interest as a catalyst

There is a constant money shortage in a money system where every Euro in circulation must generate interest. Return payments including interest take more money from circulation than was put in. Somewhere, somebody has to make up the difference. Each individual will try not to be the victim of this game of musical chairs. Unnecessarily stiff competition results, as well as well as looting of the environment and human labour power. In this way lasting ecological, cultural and social values are impossible. Because of the attractiveness of external purchasing power, in reality an effective way to cover domestic money shortage, like a temporary addition of a chair in the musical chairs game, countries end up competing against each other. It becomes more important the sell wheat for export than to make bread for domestic consumption. And to be able to pay interest, poor countries have to sell their natural resources. Because the only area where up to a point something can be gotten for nothing is in nature. (the environment.) In the end the burden is carried by natural resources, minerals etc as well as people, human labour. Children work for starvation wages instead of investing in their future by attending school.

L.c.b. Interest as a tax imposed on the poor by the wealthy

Somewhere in the world somebody pays some interest for every Euro in circulation. Even on the money in my wallet, or the money in your bank account, or the money in transit to a supplier. As mentioned earlier: all that money has been put into circulation for the purpose of collecting interest. Like in game of musical chairs but with the understanding that the participants must pay the interests the slowest participants are the poor who (also) pay extra for their shortage. On a daily basis interest charges flow from the poorest areas into the ever increasing financial balloon. People are impoverished and left behind, robbed from all their means of exchange necessary to sustain mutual trade. Sometimes efforts are made to correct this situation through taxes and aid programs but that is like mopping up with the water tap left open. And while the systematic flow of interest removes money from all areas, money returns in the form of aid that offers an opportunity for corruption and social dislocation.

L.c.c. Interest causes an exponential growth of debts and credits

Interest represents a percentage of the borrowed amount that the borrower must pay back. Interest is added to the debt and therefore the debt increases rapidly. And the amount of interest that must be paid back. Of course the opposite happens for credit. Tempting slogans in ads for savings accounts are showing us how we can earn "Interest on top of Interest."

On the other side of the increasing stock market values on Wall street and Damrak are the ever equally increasing debts of others. Often the countries in debt have already repaid the original debt two or threefold. But continuing debt because of growing interest has only increased! A situation without a solution. (An endless situation). *

An example in our book *Voor Hetzelfde Geld* presumes that your great great great grandfather in the year 0 deposited a golden ducat into a savings account for you at

a fixed interest rate of four percent. What would be the amount you are entitled to cash in if you were to go to the bank today?

L.c.d. Interest obstructs quality, permanency and long-term planning

An example makes that clear. Suppose that you are going to build a house. You have the choice to build a quality type house that will last long or a cheap house that will last not nearly as long. It is not very difficult to see the advantages of a well-built long lasting house. It is better for the environment because a longer lasting house means that fewer new houses need to be constructed, fewer materials and energy need to be used, less waste from renovation and less waste from houses that need to be demolished, etc. It also means less bother in moving and the necessity in building a new house, decorating etc. When building a quality house it also it pays to invest in some extras such as comfort and insulation. Nothing but advantages here. That house will end up costing you about twice as much, but are you really going to notice that in your yearly payments? Of course not, the write-off will be stretched out over a much longer period. To start with, the yearly payments are lower, in the end that more expensive house ends up being cheaper. There are many good reasons for choosing that expensive house!

L.c.e. Housing Example

Let us do some arithmetic. (Now let us look at some numbers.) Let us suppose that a cheap house will last 33 years and that it will cost 200,000.00 Euro. Then you'll pay per year $(200,000.00 \text{ divided by } 33) = 6,060.00$ Euro. That more expensive house costs twice as much (400,000.00 Euro) but it will last a hundred years. For this house you and your heirs will pay only 4,000.00 Euro per year. For two thousand Euro per year less, you'll live in a house that is not only more pleasant to live in, but will also cost less in energy use. You have made up your mind: you are going for lasting quality. Now imagine a visit to the bank for a mortgage application, you'll receive a cold shower. Because the bank will calculate interest and that will change the outcome quite drastically. If we calculate the interest at 10% then that expensive house will not only cost 4,000.00 Euro per year in the write-off, but during the first year there will be an additional charge of 40,000.00 Euro in interest: 10% of 400,000.00 Euro. Your housing costs are now 44,000.00 Euro. That other cheaper house, which at first appeared less expensive and then turned out to cost more, now appears less expensive again. There is the yearly write off of 6,060.00 Euro but during the first year there is only 20,000.00 Euro in interest charges. Total costs for the first year are only 26,060 Euro. During the following years, despite added interest this less durable house will be cheaper.

This example shows that when there are no interest charges someone who leans towards short-term solutions still ends up selecting the long-term solution while with interest charges short-term solutions dominate the long-term choice. It appears that interest charges make the long-term solution impractical.

This example holds true on a much larger scale. Do you (really) think that the financial department of whatever country would propose to sell off natural resources such as rainforests, if they were not forced to do so because of interest. A sold off section of that rain forest translates into a one time profit, whereas with intelligent

forest management it could earn a profit for centuries to come. But with the present money system it is more profitable to cut now and put the money in the bank to earn interest.

L.c.f. Interest leads to slavery

Did you know that there are more slaves at present than in Roman times? Until recently I did not know that. I was shocked when I read that: twenty seven million men, women and often children!

In earlier times someone was taken prisoner and sold as a slave, or was born as a slave. Modern slavery is caused because people can no longer pay the interest on debts. Entire families become the “property” of the money lender. In many villages in India the only house made out of stone belongs to the money lender. That is where the inhabitants of the village must knock on the door when they have no money to buy seed. He is the financier in small investments and he is in a position to demand high interest rates. The loan shark profits from a system that offers a built in shortage. (of money). **[Zap J – Microcredits: A Future with Little Money]**

Even in a wealthy country such as the U.S.A. we notice how debts have gone completely out of control. No wonder, there is an entire industry that specializes in the art of tempting people to buy on credit. Since the nineteen seventies the American economy has grown tremendously thanks to the success of the credit card: an entire population spent money they did not have! The debt load of the North American population has now increased to the point that on more than one occasion Alan Greenspan, the president of the Federal Bank, has voiced his concern over the consequences of these debts.

The Dutch population is moving in the same direction. More and more people end up locked in a spiral of buying on credit and through added interest growing debts. Credit is attached to high interest rates and even during the last few years of economic growth in the Netherlands problematic debts have increased alarmingly.

L.c.g. Interest leads to unnecessary high prices

When you buy a loaf of bread what do you pay? When you buy a loaf of bread what is it exactly that you pay for? The wheat, the farmers income, the bakers income, the firing of the oven, the wages of the seller. According to everyone this is quite clear. But we still pay a lot more. The farmer had to finance his equipment with a bank loan and it is quite possible that his land is still mortgaged. The farmer must pay interest and those costs are passed on to the wheat buyer. It is more than likely that the baker also needed a bank loan when he bought his bakery and mechanical inventory. How much interest is that in total? Strohalm asked the Erasmus University in Rotterdam to research this. It turns out that this could add up to more than 25% of the costs! Talk about interest on top of interest... In this manner we all pay, the poor, the middle class and the wealthy, a substantial amount of our income. And that is on top of the interest charges we have to pay on our own loans and mortgage. And we are not even talking about taxes: in government budgets, interest charges are higher than costs for education! Without interest charges taxes would be a lot lower.

You may be very grateful to your greatgreatgreat grandparents. In 1997 your capital gained by interest would have grown to **1.040.000.000.000.000.000.000.000.000.000.000** golden ducats. About 139 golden globes of the size of the earth would be needed to make all those golden ten-guilders pieces. Indeed, as early as 1863 one gold earth would have been needed to pay your capital. And if the interest had been 5%, than you would have reached the value of one golden earth-sized globe as early as in 1497, and in 1997 you could have claimed 25,7 milliard (!) golden earth-sized globes.

M. The price we pay for our wealth is that we can not do anything about the problems it creates

The existence of poverty is something we get used to and it becomes easier to getting used to it. But do we feel comfortable behind barbed wire charged with 10000 Volts and a mean dog in the yard? Are we not closing our eyes a little too easy to reality?

Strictly speaking it is a wonder that we can live with the idea that somewhere in the world children 5 years old work in garbage dumps amidst nauseating stench looking for bits and pieces of old paper and metal just so that they can earn enough to eat. I have managed to accept that. I notice that it becomes acceptable. And most likely you feel the same way. We have discovered ways to ignore it, to put it aside or not notice it any more. It is also too frustrating to deal with reality and we do just about anything possible to avoid dealing with it. The best excuse we come up with is the conviction that there is nothing we can do about it. Health wise, this is a very good way of looking at things. It offers us a legitimate way to ignore the endless misery in which millions of people must live. This conviction is also costing us: we loose an important part of our humanity. Involvement with all that is alive, what was and what will be is essential for our mental development. The fact that I have managed to hide behind some arguments is something I now experience as impoverishment.

M.a. The cost of our wealth

The cost of our wealth is higher than we realize. How often doesn't material wealth direct personal development towards material values? How often do you notice how busy we are with the protection or enlargement of our wealth? Our needs increase without us being aware of it. That is not by choice, it is an autonomous development. Stock market values are studied; investments are subject to intensive studies. It is an absorbing game, but if you are not careful you are only occupying yourself with "remaining wealthy". Because profit is a (the) game, losses are real. When the needs and possibilities to satisfy these needs keep growing, we have less and less time. Stress is part of the present day life-style.

"Those who have the most are those who have the smallest presence. They grow up without roots, stripped of their cultural identity and are left with the only social awareness that reality is dangerous."

Reference: De Omgekeerde Wereld, Eduardo Galeano.

In many countries the world of the well-to-do middle class types starts behind a security wall topped with glass shards. That's where they feel safe. But the walls that

are meant to keep the angry world outside also keep your own life inside. Many white Africans from Shanton, a luxury suburb near Johannesburg wouldn't dare show their face in a black neighbourhood not far away.

There is 10.000 Volt around his property and he keeps a pretty mean dog. Around Los Angeles are wealthy neighbourhoods that have their own schools, their own shops, their own security in fact they form their own jurisdiction. The children of these well to do people no longer leave the area. The Latin-American writer Galeano writes in his book "The Upside Down World" about how the children of the wealthy in Rio de Janeiro or Buenos Aires don't know anything about the subway in their own cities but are familiar with the Metro in Paris. They grow up with the only certain social awareness that reality is dangerous. The price of wealth is also the fear to loose everything. Fear of being robbed, fear of being kidnapped.

At the same time middle class people in many areas of the world are taking an uncertain position. With them there is a constant fear that from one day to the next all could be lost.

This was pointedly indicated to me a few years ago when I read a slogan on the wall of a slum area in Buenos Aires: 'Welcome Middle Class'.

Of course it is not that obvious to us, but is it really that much different for us?

A virtual wall (complete) with glass shards and barbed wire exists around Europe; it serves the same purpose as the walls around the villas in South Africa. It is the price we pay for our wealth. A price we accept because we don't know an alternative and we don't believe that we have the power to do something about it. Sooner or later we must object to this. We can't live like that! I want to be able to feel human without feeling caught (up) in a knot of frustration *because there is nothing I can do about it*. Believing in my own feeling of being powerless perhaps offers me a degree of safety, but deep down it keeps bothering me. I feel that there are certain links between my world and the disastrous events; that the buying of Max Havelaar products is not sufficient. In the mean time we are able to buy 15 different food selections for our cats. Heart, chicken, rabbit, duck, beef, lamb, mousse with tuna, fowl with beef, fish from the ocean, calf's meat, sardines, calf's meat and chicken, turkey, turkey and lamb, salmon. Dog and mouse, the favorite tastes of the cat are not available. Just being able to eat what we feed to our cats, others would be willing to work under the most dismal of circumstances.

It is time for us to wake up. The alternative is that we live our lives as some sort of psychotic monster dividing the world into two parts; our own known and trusted setting and then the rest of the world. And that we feel threatened by advancing foreigners and flipped out citizens.

This is perhaps my most inner motive in writing this book. I think that the conviction that there is nothing that we can do about it has been surpassed. There is movement in the money system and as consumers we are able to give that movement a push in the right direction. **[Zap U - Consumer Commerce Circuit]**

There are plenty of reasons for us to search (work) collectively for structural solutions!

N. Poverty is Unnecessary

For the poor people the money flow from the poor countries to the rich countries is a disaster, for the rich it is 'peanuts'. These incomes represent a very small part of the incomes in the financial world. In fact there is no reason to think of mindless violence on a large scale because the wealthy do not need the impoverishment of the poor.

Now and then the Leprosy fund puts publishes ads. Jan Kruis, the artist of *Jan, Jans and the Children*, (a series of comic books) explains: "I did not know that leprosy is so serious. Each day one thousand new cases are diagnosed." A little later he explains: "A leprosy patient can be located, treated and cured for the cost of seventy guilders".

Are you doing some calculations? Seventy guilders times a thousand patients: for 70,000.00 guilders a day we can cure each newly discovered leprosy patient. A little less than 40,000.00 Euro: that is a fraction of the cost for an ad campaign that advertises a new deodorant. Borrowed money is paid back by the poor at a rate of two to five times of the original amount. The billions that yearly flow from the poor to the rich is like an enormous bloodletting. **[Zap X.c. - Graph Flow of Money from Poor to Rich]** But like in the Leprosy example, for the rich countries it represents a relatively small amount! Perhaps it sounds strange, but eight year old children operating a machine for fourteen hours a day are not any cheaper than an automated production process. That makes it doubly bitter. The money, covering interest payments that flow from the poor areas to the world money markets, the stock markets, and currency trade is ridiculously small compared to the amount of money that flows within the wealthy countries into the same circuits. The money flow from the countries that are in debt is nothing else but a catalyst for the wealthier economies. The amount that represents a very small gain in the increase of wealth for the rich makes it impossible for the poor who to build a better future.

The total focus of the poor countries on the western markets, the plundering of natural resources, all the damage to the environment as well as the human misery, are not necessary to keep the western economy humming. The wealthy world no longer needs this, because technology has advanced to the point that within ten years, if necessary, it will be possible for a large part, to switch to recycling of raw materials. The techniques to produce more efficiently and with less are available. It is nauseating, but we have to accept that the misery of the poorest of the poor is really a cruel joke. The debt crisis causing a total tragedy for the poor, with no end in sight, is only a ripple in the water for the rich.

N.a. Winning Together

We live in a loose-loose situation, because the inhabitants of the wealthy countries could gain from an increase of prosperity in poor countries. That would make the world a lot safer. We could benefit from mutual markets. Think about the advances in medical research if manpower could be doubled. The capacity of hundreds of millions of people, who are presently being ignored and that is not good for anyone, could be

used in worldwide cooperation. If we need selfish reasons to bring changes to the money system, they are there for the taking.

O. The creation of money at interest: Sorcery or Exploitation?

You know the stories about alchemists who tried to change lead into gold. Did they ever succeed? You don't think so ? This chapter will show you how it was done successfully, in a certain way. However without bubbling pots but with pen and paper and later on with bits and bytes. This wondrous way of creating money happens at the banks. Of course the money is not made from gold but the money is in the form of pieces of paper that represent certain values. Originally these pieces of paper represented gold.

In order to explain how the modern alchemy works I have to take you back into Italy during the thirteenth century. Here we find people who were called bankers as well as dealers in gold. They possess considerable amounts of gold and they keep it in secure safes. Others also use these safes to deposit their gold when for instance they must go on business trips. Everything is carefully weighed and stored and the owner of the gold receives a piece of paper that indicates legitimate ownership. In case he needs more in order to do business he just borrows a little more. On a piece of paper that he takes with him we read that he is the rightful owner of "One Pound of Gold". Just to keep things simple, the owner's name does not appear on this paper: whoever is in possession of the paper can change it back into one pound of gold. These pieces of paper that prove ownership are popular in Florence. Needless to say, it is a lot easier to travel with a piece of paper rather than the weight of a pound in gold. You also lessen your chances of being robbed. The Florentine bankers have a long tradition and are well known. This makes it easy because you can use these bits of paper in payment as far away as Rome. In completing transactions they move from hand to hand, the new owner seldom takes the trouble to (go all the way back to Florence and) change the paper back into gold. In short, the proof of ownership is being used as money. The keepers of the safe are (also) making good money out of this business: the gold in the safe becomes in part the property of the safe keeper. He uses this gold to cover loans: based on his own gold in the safe he hands out pieces of paper that indicate deposits. Now he has an additional source of income: he asks for interest on the loans. The gold keepers discovered quickly that most of the gold never left the safe. We don't know who started it, or when it happened, but at a certain point in time gold keepers gave out loans for which there was no covering gold in the safe. In a way this was pure bluff. That bluff was based on the experience that the owners of the gold never came all at once to ask for their gold. No one noticed it and no one needed to know. On top of everything else: a demand was met. In those days there was a greater need for a means of exchange than having the gold at hand. Thus the gold keepers provided an incredible service to the European economy: they caused an explosive increase in money that benefited economic growth without it being limited by something as incidental as the presence of a certain amount of gold.

This was the birth of modern alchemy. New gold was not being created in kettles over a large fire, but instead more and more pieces of paper representing gold appeared. This trick has seen many followers. This trick has been copied many times over.

Our entire modern money and banking system is based on it.

The modern alchemy has received a respectable name in universities: partial coverage!

Every country's money system is based on this partial coverage and the law states how much in reserves a bank must maintain relative to outstanding credits. At the present time in the Netherlands this amounts to about ten percent. Often these reserves in turn are again pure bluff. Dollars in the safes of the Dutch banks are again only partially covered: paper bluff! But we use them as a basis for further bluff. This paper bluff covers paper bluff which further covers paper bluff etc etc. No wonder that the amount of money can grow indefinitely!

[Zap X.b. - Lietaer graph]

O.a. A self-promoting money shortage

Just like the historical gold smith, the present day banks don't loan out money for free. They calculate interest. Is that so bad?

The banks misuse their position of power. You could call it "Theft". But in addition to the creation of money for the purpose of collecting interest, banks cause all kinds of other problems. A constant money shortage, for example. This money shortage necessitates the creation of more new money. The amount of money (in circulation) as well as the money shortage grows exponentially and is the cause of the present destruction of our planet and also causes much suffering and misery.

Every day enormous amounts of new money in the form of loans are handed out to the most vital segments of the economy. That new money and its interest costs are passed on to the consumer to the end. This continuous expansion of the problem, in combination with the energy of the most vital parts of our society is making this modern method of the creation of money such a disastrous catastrophe. Disastrous because for every Euro which is added to the circulation the end result is that the total amount of money shrinks since that Euro has to be paid back with interest. If for instance ten Euro in circulation are borrowed then eleven Euro must be returned. A shortage of one Euro! Using simple mathematics one can determine with certainty that there will never be enough money to satisfy the payments of debts plus added interest. The hole for which new money has to be created just keeps growing larger and larger. And again, unfortunately more interest, so that in the next phase, well, you can guess the answer. An endless growth of new money, and new loans and new debts is necessary in order to keep the system going. The possibility to undertake new debts has become the most important quality in the economy.

The most ingenious trick of the modern alchemy is that it manages to keep itself going. The creation of money does not cause a glut in money but instead a shortage of money. And the necessity to continue the process of lending and paying back too much on an ever increasing scale into infinity.

Wonderful for those who can profit by asking for interest on new money, without the need to provide any other service. In the long run disastrous for a society that is

being pressured into a continuing necessity to earn more and more money. Disastrous for nature and the environment both of which are getting more and more depleted to make it all possible. Disastrous for the modern human being who'll end up with less and less tranquility. And of course disastrous for the poor who in the end are the ones who must pay for the interest charges.

In practice it shows that step by step the unnecessary costs of the debts end up on the shoulders of the weakest individuals in an economy. This is very clear in the poor countries. There, all the money leaves the countryside and the impoverished neighborhoods resulting in monetary deserts where money barely exists. As long as the creation of new money for the purpose of collecting interest takes place, the money system will continue to cause poverty. **[Zap L – Our theory on interest]**

P. One Money System is Not Like the Other

The wheat exchange of the Egyptians, the Bancor of Keynes: other money systems are possible. We have the choice, but for the time being we don't make that choice and we remain stuck with poverty and international chaos. Every country tries to solve its continuing money shortage by selling more to other countries than by buying from those countries. Except in the case of the United States, since the capacity of the U.S. dollar in the international money system allows for a higher level of consumption.

The more time I spend thinking about the current money system the more I end up feeling bewildered: The kind of system that organizes a society determines to a very large degree the measure of freedom and development, and mutual human relationships.

I can't be totally sure but there are a lot of indications that during the time of Moses people were quite aware of the influence of a money system. It is quite possible that people realized that choices could be made as to which money system they wanted to live by. That you can make the choice that matches the kind of world you would want to live in. There was a choice in those days because during the Sumerian society two different money systems were in operation. One was based on gold, the other on the wheat exchange which operated without interest. **[Zap G.a. – The Egyptian Harvest Bank]**

Perhaps having a choice allowed people in those days to spend a little time to think more critically about money. At the present time the most important reason for not thinking about the money system seems to be the conviction that it can not be changed.

Abraham lived during the latter days of the Sumerian Empire. Two stories in the book Genesis cause us to suspect that during that time debates over money were a lot stronger than during later years when most people had grown accustomed to the idea of money carrying interest and had forgotten that other methods were possible.

The first story talks about how the original Sumerian central wheat storage principle was introduced in Egypt. In this story the leading player Joseph suggest to the

Pharaoh that building wheat storage buildings would prevent starvation during years of meager harvests. It is possible that this was the beginning of the wheat exchange system that operated in Egypt for many centuries. In any case the papyrus scrolls show that a wheat exchange system operated in Egypt and that hundreds of years later when the Romans ruled Egypt that wheat exchange system still flourished! **[Zap G.a. - The Egyptian Harvest Bank]**

P.a. The Golden Calf

The second story tells us about the years when Moses was the leader of Abraham's followers. When Moses was temporarily absent his well-to-do followers delivered all their jewels and gold so that it could be melted down and made into a golden calf. I can imagine that this story is nothing more than a report about how they tried to connect the gold cult with religion. Perhaps the wealthy wanted to follow the examples of the priests of surrounding tribes who used the gold in the temples as a covering instrument for the circulation of money. That golden calf idea may well have been an attempt to introduce a money system that was based on gold. But in Abraham's tradition people knew about the consequences of money based on gold. The Sumerian practice utilized temple coins and it is possible that a connection was made between that use and the following ecological disasters, which nearly destroyed the Sumerian civilization. Interest on these coins increased the need to cultivate more and more desert territory, which in turn caused enormous erosion. Moses was quite clear in his rejection of interest; he probably understood very well how money based on gold was connected with interest. In daily practice differences in power amongst the citizens had become evident; money based on gold was not subjected to spoilage, its owner had time on his side while the farmer who needed money for seed could not wait. This advantage in power allowed the owner to demand interest from whoever wanted to borrow his money. Therefore money based on gold automatically becomes money that carries interest. This effect is further increased because gold is a scarce commodity. That this violation of traditional religion without gold was punished by the most seriously imaginable sanction is an indication of its importance.

Those who had wanted that golden calf were not allowed to enter the promised land. The fact that their breaking the tradition of godless religion was punished as heavily as possible shows us that this tradition was regarded as crucial.

They had to keep on wandering until death and all thoughts about gold- connected money had been eliminated. I am not surprised by this severe punishment: in the Old Testament: the money God Mammon is the antipode of the God of ethical trade.

In the end the punishment did not help much, because despite Moses' explicit rule forbidding interest the temple in Jerusalem functioned as a central bank during the year 33. Wickets where paper money based on gold was being handed out occupied the entire Temple Square. And interest had to be paid on this paper money. Jesus, a true follower of Abraham and Moses, used the high point in his popularity to object to this practice and chased the bankers from the Temple Square.

All money systems are not alike. From very early on it was realized that a money system has consequences that rise to the surface in human values. That it was

possible to use other systems that did not use interest is shown in the exchange system.

Thanks to scientific developments we now know more about the Sumerian Time than what we know about the year zero or the year one thousand. We have reasonable grounds to assume that long before our era the followers of Abraham and Moses understood that users of a system that was based on gold were 'mammonized'. A system where greed and exploitation are built ends up destroying itself: it promotes the negative side of human beings rather than the positive one with all its consequences. In old Jewish books Mammon is the pre-eminent idol (False God), the opposite of that what is good and the personification of evil. I find it a blessing to live in these times. We have unlimited possibilities to learn from the past. We can combine our present knowledge of money with the knowledge from the past.

All kinds of different money systems have functioned throughout history. During the last fifty years the present system has been firmly governed by the Bretton-Woods agreement that determined how the economic order would look after the Second World War. But even during that conference an alternative was present. If the proposals of the British economist John Maynard Keynes had been accepted, poorer countries would possibly have ended up in a much better position. Keynes' Bancor proposal offered a solution for the imbalance in world trade. Countries with continuing export excesses would accumulate claims while countries with a continuing trade deficit would accumulate debts. Because of additional interest these debts would then become impossible to pay off. Keynes proposed a system that would compel countries to maintain a balance between import and export. His proposal would maintain a balance in the International trade and money system. This proposal was politically unattainable in 1944. At that time the interests of the United States and Great Britain were better served by the system that was chosen. But for those who want to offer a chance to poor countries that idea still offers a perspective. **[Zap S.d. - The Bancor Proposal]**

P.b. Why the U.S. of America is still in a position to buy too much

The system that was ultimately agreed upon in Bretton Woods was a system whereby the value of the money circulating in the member countries was based on the value of the American dollar. With this system it would not be necessary to keep export and import in balance countries could accumulate large debts and claims. This problem of imbalance then falls upon those who have imported too much. Because of Interest the debts are then enormously increased resulting in a totally lopsided global economy. Insuperable debt loads resulted and countries were forced by the I.M.F. to sell off their natural resources and to focus their economies on the global market. The I.M.F directives cause debt-laden countries to compete with each other for markets. With mathematical certainty it can be predicted that as long as the consumer demand in the rich countries does not keep on growing at a fast pace the competition for export will result in continuing lower prices. Thus export strategy becomes an every day sellout.*

Bretton-Woods offered the United States the opportunity to import more than to export. The United States continues to consume more than it produces. In other words: the United States takes more from the world economy than it contributes

towards it. The United States is able to maintain this position, because the American Dollar is the keystone of the present global money system. In just about every country in the world the U.S. dollar is accepted. The U.S dollar is accepted in money exchange offices, in taxis and in shops.

In Russia many old socks contain an amount of U.S. dollars. Dollars circulate on the black market in Moscow, and in the busy bazaars in New Delhi as well as in the economy of Ecuador. Banks keep enormous amounts of dollars in reserve. They are present in the vaults of the Bank of the Netherlands to cover the Dutch Euros. Argentina has made its currency equal to the dollar and needs to have an extra large amount of dollars in reserve. Ecuador has gone one step further and has done completely away with its own currency in favour of the dollar. Because the dollar is being used and kept in vaults in so many countries American banks are in a position to create unlimited amounts of dollars without having to worry about inflation. This in turn makes it possible for the American citizens to live beyond their means and import more than is being exported. They absorb the trade surplus of other countries with their own inadequacy in export. They spend more and more and are still capable of increased defense spending which allows the U.S. to remain a super power. And this completes the circle: thanks to the status as a super power the dollar will remain the worlds most important currency. European countries are trying to force a change in this 'trade division' but as long as the value of the Euro currency remains low nothing much will happen. Because on a worldwide basis there is no reason to keep low valued Euros in the vaults. On the other side of the coin; Low valued Euros will put European businesses in a stronger market position. The cost of their products are expressed in Euros and there fore low. This will make it easier for European countries to create an export surplus. That would fit nicely into the 'trade division'.

Synopsis 1: Trade imbalances in import and export between different countries lead to serious impoverishment of the countries that import more than is being exported. Since the U.S. dollar is the corner stone of the global money system is the United States of America the only country that can afford to be in this position.

P.c. Developments Of The Money System

A condensed historical overview of the development of the money system shows us that we are not tied to the present system. In addition, recent developments in the money system offer us points of departure that could invoke change.

Many books that describe the history of money proclaim that an established development direction exists: first there was no money and barter was primitive. Then shells were used as a method of exchange. Later shells were replaced by gold coins. Finally modern money (as we know it) arrived. This simplistic, straightforward description strains the truth. The world has known considerable variations in money systems. We have already discovered a beautiful exchange system: the old Sumerians and the Egyptians knew the grain exchange system, a very modern looking system with its own characteristic effect. **[Zap G – The Egyptian Harvest Bank]**

There also have been recent developments. Since Nixon separated the relationship between money and gold in 1971*, **[Zap S.e. – Blasting off from the gold**

standard] money has become increasingly detached from real values and at the moment we are perhaps on the eve of the disappearance of money.

In the most modern money systems new money that is put into circulation, the creation of money, is connected with interest. **[Zap L - Our theory on interest]** A kind of hidden tax system is hereby introduced through which the poor must pay the rich. Because consumption possibilities of the rich are limited, gigantic amounts of money become available for investment. **[Zap C- Systematic poverty because of the money system]**

This leads to economic development in the rich countries and a system of prosperity shared by many. Prosperity in those countries became broadly based. In poor countries or poor areas this is much less the case. This is because the wealthy in those countries are much less inclined to spend money in their own country or region. They mostly buy luxury items from wealthy countries or invest their money in far away metropolises. The basis for healthy prosperity disappears as a result: the presence of sufficient means of exchange that stimulates local economy.

The evidence of a successful money system is that it circulates sufficient purchasing power and a sufficient method of exchange for its own regional development. The incredible increase of prosperity in the Netherlands during the 17th century was made possible by the offering of the first shares in the world. These were shares in the V.O.C. (the Dutch East Indies company). Because everybody accepted the clear value of these shares, the shares could also be used as a method of payment. In fact the amount of money in the Netherlands increased enormously. For the Netherlands the 17th century turned into the Golden Age. The incredible acceleration experienced by the present day economy demands much in the way of organizational methods. And today, shares that have value as if they were money play a roll. At the present time it is normal that when one company buys another company the purchase is financed with shares from the buying company. In this way many variants on money can be found. These variants lead to an intentional or unintentional increase in the methods of exchange. In Brazil companies that do not have enough money pay with post-dated cheques. Because the recipients of these cheques don't feel like waiting for the due date these cheques are again used as a method of payment to others, thus adding another method of payment.

Nixon's decision in 1971 to separate the dollar from the gold standard (the guarantee that each dollar could be exchanged for gold) was of enormous influence on the amount of digital money. He was forced to do this, but it also increased the growth of money to an unprecedented degree. Since this separation of money and gold and the value of a demand for payment became unknown relative to the value of the dollar, the European banks used their dollar reserves to make unrestrained loans in Eurodollars available.

The result was an explosive increase of dollars in circulation.

Furthermore during the last decades of the 20th century the money circuit was able to grow to a size of unknown proportions thanks to the information technology. The credit card-economy and investment mortgages were solidly established causing the growth of an unimaginably huge speculative circuit. A system of continuous

circulating money ensued, company values, and a slew of paper which can be used for trade. Values created on term markets and option markets are being used for continuing transactions and are diminishing the role of gold in the vaults of the central banks.

Money is only a method of accounting; stock markets determine the value and through fiber optics and computers these values travel across the globe with the speed of light. For money, time and space have become history! **[Zap S.b. - Mervin King]**

Government money itself has become more and more a target for speculation. Money speculations leading to financial crises in Asia, Mexico and more recently Turkey are only the exponents of this. The creation of coins like the Euro and the dollarisation in Latin America are answers to this development. In the mean time the difference in size between the speculative and the productive circuit keeps on growing. *

Synopsis 2: In order to develop prosperity it is essential to have a sufficient means of circulation in society. The condition for a successful money system is that it supports this. Within the present balance of power in the wealthy countries this has been achieved, but at the same time the possibility for collective exchange disappears in the poorer countries.

At the moment the world of money is in such a state that just about anything is possible. Definitely now that digital money has replaced visible money. In practice this development now leads to chaos and has disastrous effects for millions of people. There still are choices. Balances of power shift and when we use these developments we could realize structural improvements. Now that modern technology can suppress the ruling system and new systems will develop we can use the possibilities to realize more social and lasting money systems. **[Zap S.b. – Mervin King]**

A little while ago I read an article by the Peruvian Hernando de Soto about how the problem of poverty could be solved. “All you have to do is “legalize” illegal houses in poor countries. Because nearly ninety percent of all the houses are officially non-existent, it is impossible to get a mortgage for these houses. But if you were to bring these houses within the law you would create an economic potential in the poor world of no less than 9300 billion dollars. That is more than 20 times the amount of foreign aid since the Second World War. This would create an enormous financial market for the banks, says de Soto. He does not see any disadvantages in his idea. It is clear that de Soto realizes that an important part of the problems in poor countries is the absence of money. So his idea could be right. What a space could be created. But at the same time Interest will demand its share and in an accelerated manner. Many individuals who have taken out that mortgage would then need more loans to finance that interest.

There is still a possibility to look into de Soto’s idea and without the ‘Interest Trap’ It will be necessary to connect with the most modern developments in the financial world.

Within the realm of an advanced mutual trade network the houses could serve as a base for common trade without the need for interest. **[Zap U – Consumer-Commerce Circuit]**

Q. Hopeful developments in Latin America

In this chapter you'll be introduced to several developments in Latin America in which Strohm is involved. One develops from different parts of the *solidaire* economy (economy of solidarity) towards possibilities for cooperation may lead to a breakthrough.

Q.a. The Economy of Solidarity

A few years ago through a family member in Uruguay I discovered an exchange system without money in Argentina: The Red del Trueque. **[Zap I – Let's Trueque!]** I made contact and very quickly the possibility occurred to pay them a visit. This became the start of a pleasant and inspiring collaboration.

In Latin America Strohm joins in different activities with people from varied backgrounds. The agreement between all these people is that they don't want to subject themselves to economic rules that offer no perspective for the poor. They look for ways to do business differently, to expand a *Solidarity* economy. Most of the members in this *solidaire* economy participate for obvious reasons. Their businesses went bankrupt and the only way to keep working was to continue in a cooperative system. After years of occupying land a group of farmers finally own their parcel of land, only together are they able to buy agricultural machinery. A group of people in a district is better off since mutual exchange was introduced. And so on. But this self-interest is not the only reason: most members in a *solidaire* economy are often motivated to look for real change. They realize that as long as the idea of *solidaire* economy remains isolated it is also very vulnerable. More is needed. Like the foreman of the movement of "Farmers without Land" MST said: "Here we work very hard to conquer a piece of land and really do something with it. But we keep on being subjected to unpredictable world market prices and dumping practices from wealthy countries. Increasing international agreements deny us the freedom to set up our own economy. We have no other choice but to continue with our own ideas". The director of a state-owned bank adds: "A country like Brazil moves from one disaster to another as long as flash capital is not kept at bay.

Many people involved in this *solidaire* economy think further than their own activity and their own self-interest. For them building a *solidaire* economy means building a new society. People in South America are very much aware of the contribution of our money system. Years, in fact decades of economic crisis, now and then interrupted by a brief revival after which the decline went only deeper. The selling off of state owned companies, natural resources and land. A minimum social safety net. A government no longer respected by its citizens. Finally, a completely bankrupt money system. Just about every one you meet in Latin-America realizes that they face the harsh necessity to find radically different ways.

Q.b. Red del Trueque

The local bases for a solidaire economy are consumer groups, credit unions, micro credit programs and local exchange networks. The exchange networks simply came to life, because there was no longer any money to facilitate the most elementary way of trading and are well on the way to become an important factor in the local social structure. At this moment more than a million people in Latin-America deal in credits distributed by a local Red del Trueque. **[Zap I – Let's Trueque!]** Membership is growing steadily. More and more people realize that when offering individuals an honest opportunity to develop, the reigning money system will need to be replaced. The inexhaustible Heloisa Primavera travels wide and far to the most isolated communities where she explains what Trueque is about and how people can use it. Her family name literally means "Spring", for many this is an appropriate name, because she is the forerunner for new choices. Heloisa's unbridled energy has helped to spread the Trueque concept through the entire South-Americas. She often takes credits with her so that she can show people that they can really produce (print) their own money.

Just imagine her standing in front of a customs officer with a briefcase full of money the officer has never seen before. How does she explain that?

At this moment the main goal within the Trueque movement is to involve the local economy more and more with manufacturing activities and to do something about the outflow of capital from the local economy. In many places Trueque members are working so that business activities are included within the network. Carlos Monaco is trying to reopen the shoe factory in his area with créditos credit. Others are trying to convince the local authorities to accept créditos for tax purposes. Some communities already do this.

Heloisa is one of those people who works with Strohalm in trying to develop the solidaire economy into a real alternative. In addition to her busy schedule with this practical work. She is also a Professor at the University of Buenos Aires and directs a research program in this discipline. Scientists and students are now able to monitor initiatives. Heloisa keeps looking for ways to make a better use of the possibilities for members of the local economy. The next logical step would be to see if the purchasing power of official money in possession of the members could be used in a more efficient manner. Would it be possible to bundle purchasing power and thus develop consumer power? **[Zap U - Consumer Commerce Circuit]**

Q.c. The MST, a well organized network

A well-dressed gentleman about forty years of age is waiting for me at the end of a conference in Porto Alegre, in the South of Brazil. He introduces himself as: "Milton Nascimento". On his business card I read more names, in Brazil the customary indication of the names of parents. Milton tells me that he is a diplomat by profession but a sabbatical year turned into a five- year absence. For a long time now he has been working intensively with the *MST, The Movimento dos trabalhadores rurais Sem Terra* (The organization of farmers without land.) "During the conference I heard you talk about the cooperation between farmers and consumers that you arranged in the Netherlands (*Pergola*). This seems important for the MST, because here they have problems finding clients for their products. Would you be interested in visiting a few MST settlements this weekend?" Of course I was interested! At the moment the

MST is one of the most inspiring social organizations. An organization that never stops and continues to take initiatives that has improved the live style of hundreds of thousands of families. An organization that has managed to connect theory and practice, something that Strohalm can readily identify with. The MST organizes land occupation: about a thousand farmers without land occupy the unused estates belonging to landowners. They gratefully use a law, which declares that ownership of unused land will be revoked. They can thank the *gauchos* (*the South American equivalent of cowboys*) who influenced this law. For a large part they were the ones who at the time secured independence.

Sometimes such an occupation has to continue for a long time. The owner has enough money to draw out the process or he quickly plants a few potatoes. It might take years before it can be proven that the land is indeed kept as a status symbol. During that time the farmers are sometimes attacked by small armies that are controlled by powerful landowners. Casualties occur. But often after years of occupation and judicial procedures the farmers end up becoming legal users of the land. Little villages of about fifty to one hundred industries are then created. All this on a piece of land that was formerly used by the owner as a country estate for only a few weeks per year. **[Zap L.b. –Solon, the Greek Economist]**

Milton takes me to two of those settlements. As I arrive my first impression is that the inhabitants have managed to create something quite beautiful. Wherever I look I see well kept little gardens and neatly painted small houses. In the first instance I experience the delusion that I have arrived in a Polish village, I see typically Polish heads and faces. But this is Brazil and a little later I see totally different looking people.

I notice how strongly these people depend on each other. I think that I understand this a little more when I discover after a while that not all inhabitants have a farming background. A city type intellectual who helped for years with the occupation has become so accustomed to the group that he has decided to stay. After long years of hardship it was not possible to practice farming, so there was time for further studies, biological farming, discussions about social chaos, the causes of injustice and how cooperation would look like if the occupation became successful. Thus the intellectual learned the farmer's smarts, while the farmer became more educated in the academic sense and a true community ensued. The occupied estate where Milton took me has now officially been in the hands of the farmers for about five years. They have cultivated rice paddies and now they want to develop a coastal area behind their land for the purpose of tourism.

The six village representatives who receive us are just as interested in our experiences with farmer/consumer cooperative organizations as I am in theirs. Casually I tell them about industry networks we are involved with, they want to know details and soon we find ourselves in a group of fifteen people outside under a few high trees. They seem to be very interested in those industry networks and how they relate to their MST movement. Before I realize what is happening one of the more active female members is on the telephone and has set up a meeting to take place the next morning with the MST directors of their area. I must forget about having a say in this: I am being made to understand that this is very important, time has to be made available.

On Monday morning Milton takes me to an office building that was taken over and where the MST now has its Head Office. It was good that Milton had warned me because at first I have the feeling that the conversation is not going too well. The MST heavies are looking straight ahead without any expression on their faces as I talk to them about our set-up. Suddenly a heavy set farmer says: "OK, if I understand you correctly, what you are saying is that with a clever exchange system we can solve problems we now have with delinquent buyers and perhaps attract new consumers. This moment is of great value for us. I propose to them that we recruit a group of people in the near future and that they start organizing and teach them how it is done elsewhere. I explain that we don't have much money but that we will pay for their travel expenses and look after your daily needs ".

What at first appeared to me as sternness turned out to be honest concentration on their part in trying to figure out how this new approach could be of use to them. In the end the meeting ran into the small hours. By that time the room was bursting at the seams and much discussion went on as to how a *solidaire* economy can be made strong enough to battle the economy of the multinationals. Ideas developed to tempt consumers with an offer to exchange their money for local means of exchange, thus freeing up much needed capital for urgent investments. By thinking through carefully how this can dovetail with other initiatives, another building block towards a solid economy has been completed.

Q.d. Cooperative Industries

In the end a *solidaire* economy consists of producers and consumers. Much of the production takes place in cooperatives, industries that are commonly owned by members, collaborators, clients etc. Cooperative industries exist throughout the world. In the wealthy countries they are barely distinguishable from industries represented on the stock market. You will regularly buy dairy products from a company that is the result of a fusion of many smaller dairies. You might even do your banking at an original cooperative bank. There are tens of thousands of small cooperatives in Latin America that have not yet penetrated the Walhalla of international business.

Aparecido is chairman of Anteag, an organization of cooperatives in Brazil. Aparecido gives me a nice illustration of a cooperative that was started a year ago. The original company had gone bankrupt and the trustee had tried to sell off the inventory and the building. The employees occupied the building and closed a deal with the trustee regarding the price and methods of payment. That company is now a cooperative, and is being managed by the employees themselves.

"How do they survive after such an unfavourable start?", I ask. "A company that goes bankrupt does not appear to have much of a future. Are the employees now working for much lower wages?" Aparecido laughs a little: "No, the first decision they made concerned a wage increase. And that was possible. Throughout the years the owner had increased his own income to such a degree that even with an increase of ten percent for the present employees plus doubling the income for the new management the total amount for wages is now still 20 percent less than before. That is enough for the company to be able to function in a healthy manner in the present-

day market. Now that the employees are more involved, production has also increased.”

So there are enough cooperative industries in Latin America, but they must operate within the framework that is dictated to them by the international money system. How will they manage to liberate themselves from this? How can they contribute towards their own growth of a solidaire economy? That is the challenge: the combination of the purchasing power of the Trueque-members, the productive power of the cooperatives, credit information of the lenders of micro-credits, the energy of local authorities and even bank directors who strive towards radical renewal realizing that the present money system has nothing to offer and who are now daring to consider alternatives.

Q.e. Building together

Literally speaking a very different type of building block of the solidaire economy exists in Latin America, the so-called Mutiraos. These are communal building-initiatives in which people conceive a building project for themselves. They make mutual agreements, make monthly money contributions and together they look for an architect and project developer. During the building phase they contribute in labour as much as possible themselves. Many authorities have laws that support these initiatives for instance by making a piece of land available, or by securing low borrowing costs through the National Mortgage Bank. At this moment the Mutiraos are still somewhat on the sidelines of the solidaire economy.

Yet it is possible for the local Trueque system to add organizational means to use local manpower more effectively. There are possibilities to allow the purchasing power of the Mutiraos to circulate first a few times in the solidaire economy in the local area before it disappears from the region. This would contribute enormously to other local activities.

Q.f. The Workers Party

In some of the Federal States and cities in Brazil progressive governments are in power. Even these representatives realize that there is no room for the poor in the present world order. That is why they are looking for ways to encourage the solidaire economy. This confronted me when the government of Rio Grande do Sul in Brazil invited us to attend a conference about solidaire economy and social money. Since the last twelve years the Workers Party, a broad front of all sorts of groups has governed the Capital of this Federal State, religious groups, trade unions and progressive political parties. This government has written worldwide history by developing a way by which through referendums the people decide how government monies are spend. Whenever possible the government of Rio Grande do Sul wants to cooperate towards further expansion of the solidaire economy. That offers great possibilities, because much of the tax money that flows through them now disappears directly from the local circulation and therefore does not stimulate the local economy. The Federal State Savings bank offers another possibility. The managing director Maldano himself is a member of ATTAC, the international alliance that pleads for limiting speculative capital!

Q.g. Building a Cooperative Association

During the last few years the inventory of parts in the area of solidaire economy has grown. Increasingly more and more activities are now connecting with here and there still a gap. Further on you'll see how large industries demonstrate what sort of possibilities may augment activities and effect growth that could result in a powerful self-sufficient network. **[ZAP U - Consumer Commerce Circuit]**

For a number of years Strohalm has been working on different levels with people who are doing something about money reformation or would benefit from it. In connection with Universities in the South of Brazil, Chili, Columbia and Argentina (also with scientists in North America, Ireland, Poland etc) Strohalm is structuring the reinforcement of theoretical backgrounds and methods. **[Zap V.a. - Exchange and Research Network]** Together with people in the field a gradual approach is developing that will offer an extra dimension since different movements can now combine their individual forces. Local Trueque networks, micro-credit organizations and consumer groups are working on local levels and are present all over Latin-America. Regionally and countrywide the Movement of Farmers without land is effective.

A network of people using different angles in finding a breakthrough for a solidaire economy is supporting this entire process. Together we are ready for the next step:

- Where a combination of cooperatives can adopt the experiences of the Trueque Networks and organize a mutual trade without the use of money between members so that money and energy are liberated. The next logical step is the intensification of mutual exchange between the hundreds of differently operating smaller cooperative industries.
- The emergence of an entire network of local consumer groups.
- That local exchange increases in use and that purchasing power remains more useful through the use of Bonus systems and further developing Trueque networks.
- The closing of gaps between the different parts of the solidaire economy.
- The convergence of the different parts of the solidaire economy in a trade-network of industries and consumers, which we shall explain later.

[Zap U -Consumer-Commerce Circuit]

This can and must happen in such a way that the activities will show immediate improvement while at the same time a chance occurs that will renew an outdated money-system.

Part III

R. Ten Ways Money Makes Us Poorer

So far we have seen how the monetary system systematically creates problems for the poorest and how this leads to local initiatives. Before we turn our attention to how the changes in the monetary world link up with these developments, we list a few systematic flaws of the current system.

1. If you were to look at the current monetary system from the perspective of a Martian, the first thing you would notice is that money organizes the economy least, where organization is needed most. You would see money leaving areas where it is already in short supply. *Monetary deserts* spring up where the mutual trade disappears and *with the money, the entire economic organization vanishes*. * **[ZAP C – Systematic poverty because of the monetary system]**

2. What the Martian would most likely fail to see is the underlying cause: the current monetary system saddles the poorest with fatal interest charges. The most poignant is that interest is also demanded for money nobody saved up for; money created out of thin air. The effect of these interest charges is far bigger than most people realize because we don't notice how interest charges are hidden in the prices of all products. *This way, the poorest always pay usurious prices*. * **[ZAP L - Our Theory on Interest]**

3. The money sucked from the poor by the interest charges, accumulates with the people who already have more than they know what to do with. They take it to investors, who try to find returns for it. This causes a *permanent hunt for investment possibilities*. Modernization is accelerated at such a rate that it is virtually impossible for people with arrears to catch up. Technical developments and chemicals are already in full use before we have even had a chance to evaluate whether we want them or not in the first place. Simultaneously, there is a constant stream of new (and discharged) production means and the waste flow grows apace with production. Machines end up on a garbage dump because of financial figures, long before they have reached the end of their technical life cycle. Each year one-fifth of what we produce is used for replacing production means, buildings, roads and objects. The use of raw materials and the production of waste are an ever increasing strain on the environment.

Even well-intentioned companies have little choice in the matter: the interest charges force them to minimize costs in the short-term and pass them on to the future. They too are forced to work without sustainability and have to accept poor quality. **[ZAP L - Our Theory on Interest]**

4. Within every market economy an investment has a pay-off period. But in our current monetary system, every investment has to yield a percentage of interest as well. A percentage that is often determined thousands of miles away. This means the returns of a company are only that which exceeds the interest percentage. Since many investments can't offer that extra return, unnecessary unemployment and poverty is created in poor areas as well.

5. The current monetary system, *selected* in 1944, puts the costs of trading imbalances squarely on the shoulders of the weakest trading partner. **[ZAP S.c. - Bretton Woods]** This is because someone who wants to make up a deficit has to *borrow* money, and loans are always subject to interest. When you think of it, someone (or a country) who produces too much is as much of a problem as someone who produces too little. Since we express debts in terms of money, that has a built-in shortage, a country with a deficit has a double problem: a shortage of goods requires loans of a scarce means of exchange. This leads to an imbalance in debt relations.

6. Because the price of a product doesn't tell the consumer enough about the consequences of a purchase, Brazilian farmers e.g., buy Dutch tractors because they are slightly cheaper. *But together with their money, spending power disappears from their own region.* In the long run, this farmer will end up paying more because if his countrymen don't make money selling tractors, they will have no money to buy his products with. Eventually he will have to lower his own prices in order to compete on distant export markets.*

7. This monetary system also misleads savers, especially in the countryside, when they have to decide where to invest their money. The promise of high returns lures their money to the metropolis: thus neglecting investments in their own region, which in turn impoverishes the countryside. The unintended result of this is that the possessions of savers lose their value as well and the opportunities for making a living become scarce. Eventually they are much worse off. Employment opportunities disappear to the city and life in the country becomes increasingly hard. *Eventually the children follow their parents' moves in money* and the social structure of the country deteriorates. *

8. Many poor areas are hit hard by the results of speculation with money: money only comes to make a quick profit and retreats the next day, leaving the local economy in a state of collapse. Millions of people in Asia and Latin America have experienced *the devastating effect of these flows of speculative money* firsthand. **[ZAP L - Our Theory on Interest]**

9. Because money is created through interest claims, a systematic shortage of money is also created. This unnecessarily aggravates the competition. Apart from the competition for markets, there is also a ruthless *competition for financing*. This additional competition is a factor in turning our society into *a rat race*.

10. Everyone in the poor countries pays for the interest on loans and in prices. Because the quantity of money is supplied by development aid or bank loans, an unbalanced social structure arises and corruption is fostered.

[ZAP L - Our Theory on Interest]

S. Crisis or Opportunity: from fissures in the money bastion to the disappearance of money

An increasing part of the economy is becoming less dependent on the current monetary system. Big mammoth companies use a single accounting department for an entire production chain where internal transactions are settled without money and thus save a lot of money. This in turn saves a lot of interest costs and enables these companies to gain a competitive advantage.

Such administrative settling methods offer smaller companies a way to save money as well: unite in a trading network themselves. Will the crisis in the monetary system provide opportunities for the transition to a more balanced trading and bartering system?

The systematic flaws in the monetary system have spawned a countermovement in more countries than merely Latin America. The entire monetary system is in crisis these days. The speculative capital has become so almighty that Central Banks barely control their own currency anymore. The market increasingly determines figures of inflation and interest. Central Banks are losing their grip on financial developments and a power vacuum is forming. Big 'hedge-funds' can disrupt entire national economies, or even, as witnessed just recently, the European Monetary System. At the same time, this speculative capital is so fleeting and unreliable that whole economies are disrupted by its fluctuations.

But in a hectic, volatile situation, new chances surface. The Chinese language reflects this duality very well with the character for the word "*crisis*". The character for "*opportunity*" is combined with "*crisis*": every crisis is also an opportunity. This is also the way we should see this monetary crisis. It causes a lot of misery, but there is room for change as well.



The Chinese symbol combination that means both 'chance' and 'crisis'.

I would like to seize that opportunity. This monetary system has so many flaws that there is no longer any reason to accept it fatalistically. And now the system is in turmoil, let's see it as a chance and grab that opportunity!

I have to confess I had some trouble spotting the chance in the current developments. I merely saw a reality where money emphatically permeates everything: everything is commercialized. I was surprised to find, a few years ago, that at the same time, barter is organizing the world trade in an increasingly intelligent way. In the USA, a considerable part of the trade between middle-sized companies is settled through the so-called *barter circles*, where companies settle their bills through an internal settling system. **[Zap T - WIR]**

In the raw materials trade too, information systems have almost replaced money. Even countries occasionally settle their accounts without actually using money. And the stock exchange is quite used to trading bonds, promises and claims on promises against each other.

A very significant part of the world trade is no longer facilitated by money.

These developments occur mainly because companies try to reduce the costs of using money. Attracting money costs either interest (for a credit) or dividends (for issuing stocks). Companies realize more and more that money is not always necessary and many transactions can be settled with the help of their own computer program. Thanks to the development of information technology the use of (expensive) money can be avoided if it is merely used for basically clerical applications anyway. As a common civilian you hardly notice how often big companies already use these possibilities. The tendency can be seen best in concerns that strive to bring all layers of the production chain into their own company. The *Van der Valk concern* is a fine example.

Van der Valk will no doubt have dozens of reasons for keeping all activities between the farms and the restaurant in its own hands, but one of those reasons is without a doubt, trying to save money. A lot of money.

Ordinarily, a large part of the money customers spend in a restaurant is needed to pay the wholesaler, who in turn needs most of it to pay his supplier, etc.

Van der Valk is its own wholesaler and supplier. The company therefore needs no money to pay the wholesaler or supplier and can pocket most of the money earned by the restaurant.

Money isn't necessary to conduct a transaction with its meat importer or the large landowner in Argentina. Apart from restaurant owner, *Van der Valk* is also wholesaler, importer, hauler, buyer and farmer. No money circulates between these subsidiaries: all bills are settled in a single accounting department. So the concern has all the money, formerly needed for all the payments in the supply chain, readily available for other purposes and also saves the interest costs on money that would otherwise be moving between the subsidiaries or sitting in the current account!

Below this is shown in a scheme. At the right-hand side you see the totals of the money needed to conduct transactions. As soon as the various companies in the production chain form a single company, no money is needed for this and money is saved on 'administration costs'.

The use of money as an administrative medium to enable someone to eat meat in a restaurant

S.a. Part of Need For Money to Enable Transactions

The Production Chain

Breeding farm	money in transit during payment
Ranch	money on current account for a while money in transit during payment
Slaughterhouse	money on current account for a while money in transit during payment
Refrigerated ship	money on current account for a while money in transit during payment
Harbor facility	money on current account for a while money in transit during payment
Cold store/distribution	money on current account for a while money in transit during payment
Restaurant	money on current account for a while

If all these companies join in a concern, all the money needed for administrating the industrial column is no longer necessary.

-----+
total savings

Big companies prove that information technology and accounting software are sophisticated enough to enable these dynamic and complicated internal settlements. Mergers often happen in order to exploit this opportunity to the full. They might not make sense business-wise, but financially they open up a lot of possibilities. A merger between banks can even be a way of acquiring the administrative money of others. The banks appropriate all the customers' money that used to circulate between the banking partners.

S.b. Mervin King and the disappearance of money

Naturally, bankers also noticed this development. In the summer of 1999 we saw the first reaction. Mervin King, the second man of the Bank of England, held a presentation for a select company of national bank managers and other influential financial gurus. He declared *the end of the monetary system as we know it*. He stated that the Central Banks would no longer form the financial basis of the monetary system. They would merely supply the 'monetary units'. These monetary units would be used to indicate the value of goods and services, while new settling systems take care of the actual transactions.

According to King, the exchange function of money will fall into disuse. Money guaranteed by states and banks will have to compete more and more with other



Mervyn Allister King, Vice-President of the Bank of England, was the first central banker to admit openly that the money system is changing completely and the monopoly on money creation is disappearing.

forms of settlement and value coverage. King predicts the world will become a barter economy again: "Nothing will prevent two individuals from settling a transaction as a transfer of wealth from one electronic account to another. The buyer can pay with any currency as long as there's a market price for it". The *unit of calculation* will still be dollars or euros, but: "As soon as proper agreements have been made and the computers are powerful enough, a privatized institute can take over the financial transactions from the central banks", King states. Without this function both money and the central bank will cease to exist in their current form".

The most likely source of the future's 'money' is the mammoth companies. Consumers all over the world know them and will put faith in their promises (the money they guarantee) because of their renown and production capacity.

Hundreds of millions of consumers already save Air Miles and other savings stamps that can often be used as money. If I get Freebies with *BP gasoline*, I can spend them as guilders in *Electro World*! **[ZAP U - Consumer Commerce Circuit]**

If this development continues, the interest-takings shift from the banks to the big companies. I am not under any illusion that poor people will gain better access to means of exchange or investment money: this is hardly an improvement.

But if we stop looking at poverty as an unsolvable problem, we can help create new forms of money that give the poor real opportunities.

We can learn from the current developments, discover which opportunities they offer us as consumers and as an independent company. I think we will have a unique opportunity to create a world where poverty is virtually non-existent, personal growth is within their grasp of a lot more people, and cooperation is more important than competition. The possibilities could surpass our wildest dreams!

We can turn this crisis into an opportunity if we, as consumers and independent entrepreneurs, use money as little as possible for our economic activities. In other words: if we settle our transactions within our own settling system as often as possible. I'm envisioning an international cooperation that links local networks. In this international cooperation, participants in rich countries benefit from mutual exchanges in poor countries because the bigger the cooperation, the less (interest-bearing and therefore expensive) money they need. The 'digital money-bytes' used only for registering mutual transactions, hardly cost anything. This leaves room for the poor people to trade mutually. An unlimited access to mutual exchange is the pillar for their social structure and for the quality and size of production.

This development has the most chances for success if independent companies begin to realize just how many interest charges they pay and how to reduce these charges like the big companies do, by settling their transactions outside of the monetary system. It will become even more appealing if they realize they can use the money now circulating for administrative purposes, for productive purposes in the circle of participating companies instead.

S.c. Bretton Woods

In July 1944, in the town of Bretton Woods, New Hampshire, the United Nations Monetary and Financial Conference was held with the intention of establishing an international monetary agreement to regulate monetary units and to end nationalist competition between currencies.

An unprecedented event in the history of international economic relations, the conference has agreed upon the necessity for a broad international action in order to maintain an international monetary system which would promote foreign trade.

A "new economic order" was needed, one that would put an end to nationalistic competition between currencies and in its place promote the cooperation and mutual assistance between countries to overcome short term exchange difficulties. Under the aura of the recently re-established peace, countries were then committed to cooperate towards world prosperity.

This was to be accomplished by pegging all participating national currencies to the US Dollar, in relation to the value of gold at initially 35 US dollars per ounce. The US Federal Reserve Bank guaranteed the value of its currency with gold stored at Fort Knox.

Following the motto of international cooperation towards world peace and prosperity, the Bretton Woods agreement created the World Bank and International Monetary Fund, which were to work together to help particular states out of financial difficulties

in case of a large and persistent balance of payments disequilibrium. The World Bank would fund the reconstruction of Europe, and then the Third World. The IMF would guard international fiscal stability, providing loans and bailouts for states that would fall into economic troubles. All participating countries would have to keep their foreign reserves in US Dollars.

Already starting in the 1950s, the United States began accumulating persistent trade imbalances, creating liabilities in the United States to other central banks. But although the US dollar was the reserve currency, the government remained reluctant to devalue its currency in order to reduce its balance of payments deficit. The destabilization caused by market speculation, and the large and persistent (to this day) US balance of payment deficit caused the demise of the system in 1971.

Although the US dollar was the reserve currency, the government reluctant to devalue its currency in order to reduce its balance of payments deficit. Countries holding the surplus chose to increase their reserves of US Dollars rather than devalue their currencies, which added to a ballooning stock of US Dollars held outside of the United States. This is because dollar-denominated assets could be placed in interest-bearing US government bonds, whereas there was no similar advantage for holding gold.

A number of countries felt that the US was over issuing its reserve currency, which basically meant that everyone else was financing its budget deficits. This unwillingness on the part of the US government to take the lead in correcting the situation, along with upward pressure on the price of gold caused by speculative purchases of gold were some of the reasons for its downfall, which will be explained later in this section and in the following two sections.

In the creation of the Bretton Woods system, Britain and America disagreed on its design, and the role that gold played in it. Britain had spent its gold reserves during the war, and therefore called for a system that gave access to international liquidity in which gold played only a minor role. The US on the other hand, had significant gold reserves and felt it would be easier if the system were based on gold. One could argue of course that America had designs to become the global economic power through this system, as it was holding the lion's share of gold.

Although the original intention was equilibrium among national currencies, in fact the design of the system meant it would not be necessary to keep exports and imports in balance. Countries could accumulate large debts and claims and the IMF would be there to bail them out, or the responsibility for solving the imbalance then falls upon those who have imported too much. Because of the rapid growth in interest by debtor nations, unpayable debt loads resulted and countries were forced to follow IMF directives.

The IMF directives cause debt-laden countries to compete with each other for markets. With mathematical certainty it can be predicted that as long as the consumer demand in the rich countries does not keep on growing at a fast pace the competition for export will result in continuing lower prices. Thus the export strategy resulted in "fire sale prices" for natural resources in the Third World.

Bretton-Woods offered the United States the means to finance a consistently increasing trade deficit, to import and consume more than to export and produce, as well as to persist with an overissuance of US dollars, without causing spiralling inflation, because other countries would take up the excess dollars into their foreign reserves. In other words: the United States takes more from the world economy than it contributes towards it. The United States is able to maintain this position, because the American Dollar remains the keystone of the present global money system.

S.d. The Bancor Proposal

At the Bretton Woods conference, the British Delegation was headed by economist John Maynard Keynes, who proposed a multilateral clearing system between currencies through the introduction of a new reserve currency he called the “Bancor”. The Bancor would be freely available to any country with a balance of payments deficit for payment to countries with a balance of payments surplus, and thus was a monetary tool for equilibrium between countries.

Had this proposal and not the American one been accepted, gold would have been essentially removed from the international monetary system. The emphasis would be on circulating unused funds between countries in order to achieve equilibrium, rather than building huge reserves and lending those reserves out to others.

The value of the Bancor would be fixed in terms of gold, and member states would be asked not to buy gold at a higher price than this level, with discretionary control by the Bancor board to allow for conversion of gold into Bancors, and to prevent rushes for gold reserves held by the Bancor institution on the other.

Keynes’ Bancor proposal was much more flexible than the American proposal. The presentation itself was not assertive, and open for discussion and negotiation; the governing board would only be able to make recommendations, or imposing conditions on access to some of the financial facilities the institution would offer; the proposal would not require large-scale changes to the type of government (perhaps open even to communist governments) or economic policy of the member states; the management of the institution would be international and that no country would have a right of veto and the rights of smaller countries and economies would be safeguarded.

In addition, a method for determining relative exchange rates between currencies was proposed to prevent competitive exchange rate devaluations. There would be a supply of Bancor currency sufficient to meet the demand, and the Bancor could expand and contract in response to inflationary and deflationary tendencies in domestic markets. The key to this would be a mechanism for maintaining internal stability by exerting pressure on any country to maintain equilibrium in their balance of payments.

Each country would have a quota and balance limit in Bancors, relative to their trade volume. Member states would be allowed to withdraw up to a certain amount, and those with positive balances would pay 1 percent annually on its average balance of Bancors in excess of 25% of its total quota. This payment would increase to 2

percent for the average balance in excess of half the allotted quota. Countries would not have to pay these contributions if they decide to cooperate with each other through the managing body of the Bancor, while restrictions were put on external bilateral arrangements to prevent debt problems between countries.

Debit balances in the Bancor could be relieved by devaluing the currency, controlling outward capital transactions, or payment in gold or liquidation of other assets. Positive balances in the Bancor could be controlled by expanding domestic credit and demand, appreciating the currency, reducing import tariffs and providing international development loans.

Keynes' Bancor proposal therefore offered a solution for imbalance in world trade by creating a method for international equilibrium between currencies. By focusing on circulating funds rather than accumulating them, the result would be increased multilateral investment rather than lending by a group of wealthy countries, while at the same time creating a method for countering monetary disequilibria by establishing responsibilities for both creditor and debtor nations and an overall multilateral character to the arrangement. By creating an overdraft facility for providing relief to some without overburdening other countries, countries would not fall into unrepayable debt.

This proposal was politically unattainable in 1944. At that time the interests of the United States and Great Britain were better served by the system that was chosen. But for those who want to offer a chance to poor countries that idea still offers a solution.

It is interesting to note that Keynes' proposal is very similar to that of Silvio Gesell several decades before. Gesell visualized the concept of an International Valuta Association which would issue and manage a neutral international monetary unit that would be freely convertible into the national currency of the member states. The proposed IVA was part of a plan for a post-capitalist monetary system, free of monopolies, customs frontiers, trade protectionism and colonial conquest.

In this vein, Keynes' said "I would sympathise with those who would minimise, rather than those who would maximise, economic entanglements between nations. Ideas, knowledge, art, hospitality, travel – these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible; and above all let finance be primarily national."

S.e. Blasting off from the Gold Standard

Starting in the 1950s, the United States began running persistent trade imbalances which created liabilities in the United States to other central banks, and beginning in the early 1960s, the United States no longer had sufficient gold to cover liabilities to other nations.

From the early 1960s, governments had been using some of their stockpiled reserves of US dollars to buy gold, pushing the value upward. By 1963, the US gold reserve at Manhattan barely covered liabilities to foreign central banks and by 1970 the gold coverage had fallen to 55%, by 1971, 22%. Thus, from 1963, had the foreign

central banks tried to convert their dollar reserves into gold, the US would have been forced to abandon gold convertibility. From 1965, France was consistently converting its dollar assets into gold, in a desire to reduce the economic power of the United States. In 1967, the British Pound was devalued against the US dollar began to undermine the system's stability, and the value of the dollar as a reserve value peg. During the first months of 1968, a number of central banks and the US Federal Reserve were forced to sell gold for 3 billion dollars.

In March 1968, the gold pool was dissolved, and the central bank's stocks of gold were disconnected from the world market, accomplished through agreements by central banks not to commit to selling or buying gold on the world market, and by repealing the requirement of a gold reserve to back US currency. This caused a split in gold prices, one that was pegged to 35 dollars per ounce, and another that was rising fast. However US dollars could still be converted to gold, which became a serious problem in the early 1970s when a lack of confidence in the U.S. dollar led to mass redemptions of US dollars for gold.

Later in 1968 an international reserve currency, called Special Drawing Rights was created to ensure sufficient international liquidity. The Special Drawing Rights was reminiscent of Keynes' Bancor Proposal, and were defined as 35 SDR = 35 Dollars = 1 Ounce of Gold. However, the use of the SDR from 1969 could not prevent the collapse of the system.

President Nixon made the decision in August 1971 to separate the dollar from the gold standard by saying that the US Dollar could no longer be exchanged for gold. Nixon's move to cease allowing foreign Governments to redeem dollars for precious metal was the final act in a 150-year-long 'transfer' of the citizen's gold and silver to the Federal Government's vault. This allowed the U.S. Government to have much more freedom in determining the rate of printing and volume in circulation of its fiat currency.

Nixon's move also denatured the Bretton Woods system and left the International Monetary Fund, Bank For International Settlements and World Bank all without any foundation for global monetary policy other than to rely on the US dollar as a reserve currency. Thus the departure from the gold standard was seen as an imperial move by many, removing any and all semblance that these institutions were mediators or regulators of money markets. They were, in effect, marketing agencies for the US dollar and a system in which other currency was necessarily enslaved to it.

By abandoning the gold standard precisely at that particular moment, the U.S. drove the world's central banks to use their surplus of dollars to invest in U. S. Treasury Bonds. The volume of such assets increased exponentially and, far beyond the ability (or intention) of the United States to repay. The alternative that was left for other creditor countries was to simply accept that the dollars received in the course of international trade were worthless. So, under this "blackmail", central banks from all over the world were driven to finance the U.S balance of payments deficit.

The US balance of payment deficit is reaching astronomical proportions while many countries are suffering under the burden of unpayable debt, and currency volatility

has led to monetary crisis in many countries during the past 30 years. On such an unstable global economic footing, something will have to give way.

T. WIR : A Swiss companies network demonstrates what is already possible

The Trueque exchange systems, the savings groups, the purchasing cooperatives and the cooperative companies in Latin America can grow towards a trading system that settles the mutual transactions between participants without money. **[Zap Q - Hopeful development in Latin America]** But how will this take shape here in the Netherlands? Here in the heart of the international monetary system, in the rich world, that is sucking money and raw materials from the poor areas as we speak.

To be honest, it took me years to master terms like 'internal settlement', 'consumer money' and 'barter network', so I can certainly understand if you don't know what to think of a companies barter network.

It usually helps to study a similar system. For this we turn to Switzerland, where a WIR circle has been active since 1934. It was started there to help small companies survive during the global economic crisis in those years.

The WIR is an example of a clever barter network. About 60,000 Swiss companies participate in the WIR and settle their mutual transactions without money. Its turnover is over one billion euro. Every member has an account in WIR units, with a positive or negative balance. You could compare it to a bank account of a bank that doesn't participate in the national central payment clearing system, so you can only exchange payments with that bank's other customers.

Thanks to the large number of companies participating, virtually anything can be bought through the WIR and participants have genuine advantages. You check the Internet and see who offers what. Do you want to build an office building, have something to print, or need a medical examination for your staff? You can buy anything you want with WIR units from one of the participating companies. The prices are the same as in Swiss francs, the only difference is you use 'a different account pass book'.

A little while ago, a WIR bank was founded for the WIR circle, so now even more financial transactions can be settled in the own network. The WIR took decades to reach its current size. In the time when only a few companies participated, the network was not always an attractive option. Credit was very cheap in the WIR units, but it wasn't always easy to spend your WIR units. Strohmalm knows from experience that beginning networks only become truly inviting when they are so big you can buy 'anything' and preferably with your favorite supplier. If this isn't possible, then Barter is too much like the 'truck system' (forced to shop in certain shops only), and an entrepreneur will only use it if he truly has no alternatives left or if there are other, immediate, huge advantages. So size is essential. And so the question: how can you grow to this size so quickly that the advantages for companies exceed the disadvantages?

U. From Crisis to Opportunity: Consumer Commerce Circuit?

A breakthrough in the area of money motivates people in two ways: it offers durability and better chances for poor people, and concrete advantages for the participants. This win-win-situation makes the change a real possibility. Both in The Netherlands and elsewhere in the world. [ZAP Q – Hopeful Developments in Latin America.]

Big companies suggest they deliver good quality for good prices, but the reality is different: the *consumer pays too much*. Increase in scale does indeed have the advantages of size, efficiency and internal settlement, but interest and dividend payments together cost the consumer much more. The interest banks want over the money they created out of thin air, is placed on the shoulders of the consumers by the companies: we pay dozens of percentages too much and receive unnecessarily low quality for our money. In the prices we pay, we pay the interest charges or the financing of machines and supplies, in the rents and mortgages we pay for the building of houses, in the taxes we pay national loans etc. When I first realized how big the interest charges are in the consumer prices, I was stunned. **[ZAP L – Our theory on interest]**

It really is a paradox: as consumers we are the most loyal allies of the global degradation. We follow the latest fashions, are suckered into anything and unwittingly cause inhuman situations in other parts of the world with our longing for luxury and hunting for bargains. And in the mean time we always pay too much! We finance these developments as consumers, but we have no influence on them. Why would we go on participating in this? Why do we accept that prices often are dozens of percentages too high?

U.a. We consume too little?

Once I shocked readers of the magazine *Milieudefensie* with the remark "We consume too little!" In the article with that header I explained we had to put a stop to the enormous sums being taken from consumers. If we didn't, economy and culture would become ever more frantic and we could forget healthy social relations. Because in the end it is the money the consumer pays too much that causes the investment pressure, which destroys everything. **[ZAP L - Our Theory on Interest]** If we can stop paying too much, we have the choice between growth and flourishing.

An interest-free economy has a lot to offer consumers, so it doesn't require altruism to strive for an interest-free economy. This means that the wish of consumers to pay less can be the drive behind the change that makes the economy switch from exponential growth to economic flourishing, to chances for everyone and economic circumstances that encourage sustainability in a much better way.

And consumers truly have that power. I would like to take you through a mental experiment to prove my point:

Suppose all consumers refused to pay with anything else than our own coin, the *consucoin*... Within a short period of time this *consucoin* would be the only available means of payment. Companies would have no choice but to accept the *consucoin*. Or else they won't sell anything. And why wouldn't they want it? With the *consucoin* the can pay their employees, and they can pay their suppliers, who, when push comes to shove, are also consumers.

Of course it is unthinkable that all consumers would react the same way at the same time. But this idea has a potential that may be implemented step by step. Or: the consumer with his/her spending power wields much more power than we realize. It is not for nothing that companies plunge themselves into costly advert campaigns to win the favor of the consumer?

In the next chapter I want us to study the possibilities for cooperation between consumers and those companies that do not profit from the change of the money creation to the big conglomerates.

U.b. The Consumer Commerce Circuit

In chapter **[Zap S.d. – The Bancor Proposal]** we saw that independent entrepreneurs have everything to gain by a mutual settlement system. But it would have to be so big you can purchase anything in it. The last chapter also proved that consumers have everything to gain by entrepreneurs who do not place the interest charges on their shoulders anymore. If these groups work together, a quick and safe build-up of the barter network is possible.

We are looking for a possibility to use the crisis in the money system to build a bartering network that gives poor people the chance and leads the economy toward more sustainable way of producing. Big companies provide a clue on how to achieve this and the companies-network WIR also gives a hint. **[ZAP T – Wir: A Swiss Company Network]** But all this is merely entertaining theory as long as starting companies networks are unattractive because they are too small. As long as many items are not for sale in the network, and most regular suppliers do not participate, it is very hard for a company to spend its barter units. In that case, it is not very appealing to have claims in this beginning network. It takes an enormous amount of energy to recruit companies and mediate with transactions. This is a huge (and expensive!) disadvantage compared to the current money system that doesn't need to recruit any companies! Everybody is legally obligated to join. Both for companies and consumers there is now a very good reason to join: every company would like to realize its investments cheaply and no consumer objects to prices without interest components!

Program Description

The "Consumer Commerce Circuit" approach is the result of more than a decade of investigation, experimentation and evaluation in the field of interest-free money carried out by Strohalm. It is the most powerful method Strohalm has developed so far in terms of potential outreach and impact.

C2C is a national and international cooperation of local and regional networks where members use money to buy exchange units (also known as **vouchers**) that will be used for mutual trade. These transactions are recorded in an internal accounting system. They can always trade their vouchers back into money. This trading back of units will cost a percentage as trade-back premium. This percentage is always the same as or higher than a purchasing bonus. The participants have agreed to leave

the consumer prices in vouchers/exchange units at the same level as the monetary prices.

A C2C is basically a combination of two elements:

1. a customer-loyalty program or consumer volume-purchasing group in which members buy prepaid vouchers (electronic and internal as calculation units), which they use for their purchases within the circuit.
2. a trade network between independent companies which employs an internal accounting system for transferring the calculation-units used in transactions between members. No conventional money is needed for these transactions.

Usually the major portion of the money on the savings account will not be withdrawn but made available to members in the form of interest-free loans through an agreement with an intermediate bank, preferably a cooperative Bank or Credit Union.

In this respect, the C2C is similar to the accounting system used by many large companies: internal transactions of funds between different branches of the same company are recorded within a joint accounting system, enable companies to improve their cash flow which was previously lost to facilitating internal transactions and to reduce their need for expensive interest-bearing money simply for this purpose, with the savings being used to improve the company's financial and competitive position. The difference is that the C2C, instead of working with one company, builds a network of independent businesses and cooperatives to achieve the same advantages and improve the competitiveness of these businesses in the regional, national and global marketplace.

Local, National and International C2C networks utilize the Internet to facilitate communication, exchange and accounting between the participants in the network. In this way, a local area can choose to establish a C2C in order to coordinate its own production, and at some point join into larger regional, national or international networks.

Summary of the Program

1. Conversion of National Currency into Vouchers with National Currency going into a Fund.
2. The Fund is used to provide Interest-Free Loans to businesses, preferably at the top of the supply-chain, in order to lower prices at the bottom.
3. Prices are lowered by establishing buying arrangements between the links in the supply chain, to ensure efficiency as well as necessary profit.
4. Consumers who have converted their National Currency into Vouchers can now purchase goods at a good discount from local retailers, strengthening local industry, employment and the economy overall.
5. Purchasing using vouchers results in the purchaser receiving points which go towards the opportunity for low-interest or interest-free loans in the future.

Background

Over the last 20 years, Strohalm has published several articles and books demonstrating that the payment of interest on loans which is fundamental to the creation of money in the current monetary system is responsible for a great number of economic, social and ecological wrongs (see Strohalm's publications). Interest increases the gulf between rich and poor, increases prices unnecessarily, leads to investments decisions that take little or no notice of the long-term effects with consequent environmental degradation and forces the community to choose between an accelerated growth or economic recession.

For these main reasons we decided to establish interest-free systems. In order to have a meaningful impact, the interest-free system must be able to compete in a market environment where the creation of money is based on interest.

The C2C is only one of many Strohalm programs to improve the social, environmental and economic situation anywhere they are implemented.

The Purpose of a C2C

The purpose of C2C is to free society and the economy of the burden of interest that causes impoverishment, wide social inequality and conflict as well as environmental degradation.

More practically, the goal of the C2C network is to realize as much economic activities as possible in its own networks and in the process freeing as much national currency as possible in order to make it available for interest-free loans to members.

C2C lowers the financing costs of the participating companies by supplying the members with interest-free investment loans. The money for this is freed by replacing the money circulating for mutual transactions of the participating companies by a voucher. The money that used to circulate between companies has been replaced by the voucher, therefore the national currency funds can now be used for giving interest-free loans to those same companies. The principle can be compared to the practice of many multinationals that save money in the transactions between different company parts.

Advantages

The advantages of the C2C for its participating parties are:

Consumers:

- Increased purchasing power and access to interest-free credit.
- Increased local employment through a strengthened economy.

Companies:

- Increased access to cheap, interest-free credit.
- Reduction and eventual elimination of debts.
- Increased local demand, customer-loyalty and therefore increased turnover.
- Increased ability of small businesses to compete against large businesses.

Local Community ("Society"):

- Strengthening of the local economy and less unemployment.
- Projects with a long pay-off period (e.g. environmental investments, community infrastructure) will turn out to be profitable thanks to the interest-free financing.
- Creation of a special fund for community projects, to be allocated by the members.

Local government:

- A more stable local situation.
- Increased tax incomes due to increased local economic activities;
- Fewer expenses for fighting poverty-related social ills.

Potential Risks

1. Consumers are unwilling to convert their national currency into local vouchers.
Solution: Grant a “Purchase Bonus” to encourage conversion into vouchers. For example, purchasing \$105 worth of vouchers will only cost \$100, although the price of the goods remains the same or is less than before.
Solution: Grant “Credit Points” for every voucher purchased. These borrowing points entitle the member to a loan against a very low (or even 0%) interest rate.
2. Too many people seek to convert their vouchers into national currency.
Solution: Impose a Conversion Fee to discourage such conversions, while allowing them because it may be necessary to convert the voucher back into national currency

Process

1. Consumer or company buys vouchers with national currency.

The decision of which combination of incentives to use and at what level should be left to the local C2C itself. Nevertheless, one should always bear in mind that, in case the fee charged to convert vouchers for money is high, one needs to concentrate the “interest free” loan possibilities as much as possible in order to obtain involvement from the consumers or the companies.

2. Company or network member receives an interest-free loan in national currency or in vouchers (for local purchasing), and therefore can lower prices in equal measure with the savings gained from not having to pay interest. Loans can be repaid either in Vouchers or in National Currency.
3. Retailers, transporters and wholesalers can join into the network and also receive interest-free loans and guaranteed business. In return, they agree to lower prices in accordance with the savings they have gained from not having to pay interest. This results in a *networked supply chain*, with the overall goal being to network individual supply chains, and integrating them into a broader economy.

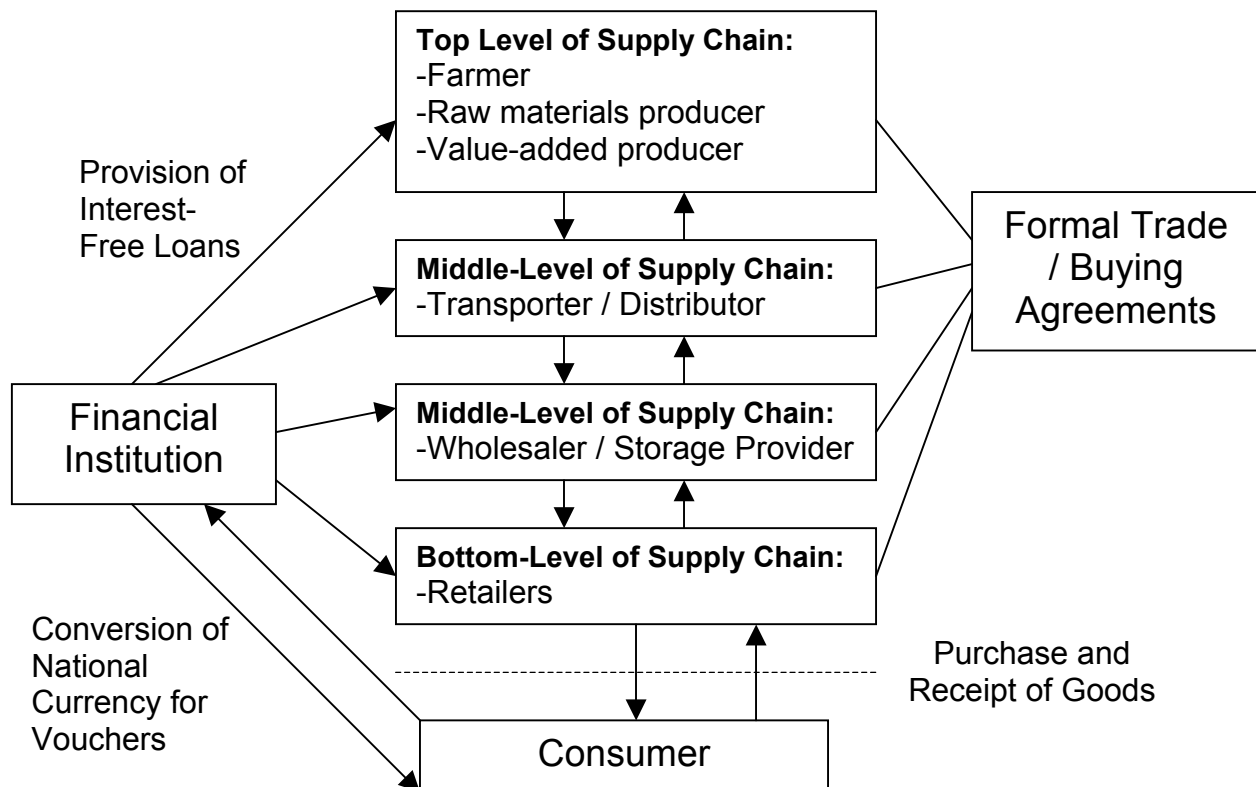
Why would a company accept voucher as payment?

- Because it too has a supplier that accepts them as payment as part of the purchasing agreement made with the other links in the supply chain. For those

businesses that are not part of the network, they can receive vouchers anyway because they are still convertible and it means more business for them.

- Because it can collect "Credit Points" this way. These borrowing points entitle them to a loan for a very low or even 0% interest. If a company receives a payment electronically, these borrowing points will be given automatically. If company X receives vouchers from a consumer or from company Y, then company X can deposit this amount on its account in vouchers after which the "Credit Points" will be allocated at that time.
4. The Consumer can then purchase goods from retailers at a price which is lower than other local stores, and more competitive with larger stores.

This Process can be described visually as:



Generating Revenue for the C2C Network

When national currency is converted into vouchers, the national currency goes into a fund which is used for interest-free loans and other expenses related to the function of the system. Therefore, revenues must be generated in other ways, such as:

1. **A registration fee** for new members, preferably only during the start-up phase.
2. **A periodic membership fee**, preferably only during the start-up phase.
3. **A liquidity charge**, which is a levy on account holders' positive balances and intended to encourage them to quickly spend their units. It is set on a standard of 12% per annum, from which 7 or 11% is made available for the local system. The liquidity levy can be imposed in two ways:
 - a. If the account is a bank account:

An automatic levy. At the end of every day, the computer calculates a standard levy of 1/30% on positive balances and en deducts it from the account.

b. If the account is kept with vouchers:

Through the purchase of stamps or seals. E.G.: at the back of the vouchers are 12 boxes where a stamp has to be glued every first of the month. Without this stamp, the voucher loses its value. Electronically, this can be applied as a time-based charge applied to various electronic transaction platform methods.

- 4. Commissions on conversion from vouchers to national currency.** To discourage the trading back of vouchers for national currency there will be a commission charge. For example, when someone wants to trade back a voucher of \$100 he will receive \$97 in national currency. And in the same way,
- 5. Through payment of a converting premium if the voucher is traded back after the validity has expired.** E.g.: the voucher has a validity of three months. Whoever has the voucher after these three months, has to turn it into a new voucher. He has to pay a liquidity levy of 3% of the voucher's value.
- 6. Interest revenues on saving accounts.** The national currency revenues from the sale of vouchers are put in a savings account to fully back the circulating vouchers. The interest on this savings account can be used for interest-free loans to members. In practice, this interest never occurs if a deal has been closed with the bank to act as private bank; the money saved in this account is added to the money lent out by the bank to the network.
- 7. The "collector's effect".** This effect occurs with the issuing of vouchers. Experience in other systems shows that only a small part of the circulating vouchers are actually traded back for national currency. Part of the vouchers will get lost in the course of time or disappear in the albums of collectors. If vouchers have not been handed in after a certain period of time, they can no longer be exchanged. The national currency used for coverage in the reserve fund are transferred to the investment fund (for interest-free loans to members). Attention for design and regular changes in this design can increase this effect.

What parameters are the local C2C allowed to set?

- A. Purchase Bonus and Credit Points Incentives to encourage conversion of national currency for vouchers.
- B. Trade back fee /converting discount for people who exchange vouchers for national currency (3,06% in example.) N.B. (a) has to be smaller than (b).
- C. Purchasing and sales fees for intermediaries.
- D. The part from the liquidity levy income intended for promoting the system (if there is no executive committee yet, Strohaln prefers 1/3 of the liquidity levy or 4% annually of the amount in circulation).
- E. The spending of the C2C's income.
- F. Membership costs.

What role does Strohaln play in all this?

During the start-up phase, Strohaln assumes the part of international umbrella organization for C2Cs. In due course, this position of global support will be transferred to an international democratic structure of associated C2Cs. Until then, Strohaln takes as its rights and responsibilities:

- A. Development of the model.
- B. Has a Veto-right to changes and appendixes to the model, both on a local level and on higher levels.
- C. Does the training (and if necessary selection) of promoters /subsidiary.
- D. In the start-up phase, act as the first executive committee of the local C2C and close the deal with the subsidiary.
- E. Supply necessary software. In principle we let the software operate locally, under the responsibility of the local C2C; the partner can opt to make use of the central (internet-based) software, but this comes with a price tag.
- F. Regular follow-up.
- G. Setting up regional and supra-regional umbrella (trade) structures, that enable individual members to trade outside of their own C2C.

Which obligations does the local partner (promoters) have to Strohalm?

- Annually pay a liquidity levy of 1% of the average volume that Strohalm/international organization uses to distribute and improve the C2C-model. (Distribution means that the money has a bigger chance of staying inside the C2C as a whole, which is very important for each of the C2C's.)
- Strohalm has the veto right in adaptations to the model as it grows and develops. This veto right will be transferred to an international democratic structure, at the moment that structure can guarantee the quality and a strong development of the international network.

Project Results

From the implementation of the C2C program, we can predict the following general results:

- Increased local economic activity and employment,
- Increased access to low/no-interest loans,
- Increased competitiveness of smaller businesses with larger businesses,
- Improved local infrastructure.

Conclusion

Thanks to the consumers money, the companies network is not hampered by the limitations of other barter networks or by the starting up problems when the size of the network is still limited. Once the network starts to grow in size, more can be purchased in the network itself. It will become less and less necessary to buy items with consumer money outside of the network and the stock of euros, supplied by customers, will increase. A major part of that money is *released* and can be used to help members with paying back bank loans and investments. A growing part of those investments can be obtained from other members, and therefore be settled internally. The freed money will help fill the gaps in the network: investments can be made where it benefits the network. Slowly a situation will arise where the company investments will be realized completely within the network and are thus no longer burdened with interest. Participating companies will no longer have to charge-on interest charges as 'costs' to their consumer-members. The only costs are those of the risk insurance that is meant to protect the network from non-repayment loans.

Step by step the network will become less dependent on the money creation by third parties and an increasingly big part of the economy will enter smoother water. And more *honest* water as well, since there are no interest payments from the poor to the rich.

Apart from that, companies will automatically choose quality and longer depreciations. They will be able to pay more attention to the possibilities of saving future costs and will dare to invest in quality and savings. It would e.g., be economically viable to put in solar energy panels. The lowering of future energy costs will no longer be undone by high interest charges. More and more participating companies will start planning for the longer term and opt for quality and sustainability.* **[ZAP L.c. – See the Housing Example]**

U.c. Organic farms, clean energy and support for poor countries

In The Netherlands we want to realize the consumer/companies network around three themes: organic agriculture, clean energy and support to development in poor countries.

We want to ask people already in biological food-subscriptions, the customers of a biological shop or a Third World shop, to carry the load. They can use their purchases comfortably, simply by using a form of Bonus card, to give the network an opportunity to achieve its goals. The interest advantage gained thanks to the money-free settlement, can be used for investments in clean energy, e.g. solar energy panels or -boilers. We would also like to create sister- and brother ties that communicate the development of local groups here to groups elsewhere, e.g. in poor areas.

But local groups can of course decide for themselves how to spend the advantages of an interest-free network. They might want to have a new locker room for the local soccer club or something completely different!

U.d. The South American Consumer Commerce Circuit

The consumer-companies network in Latin America is built, because existing initiatives increasingly work together in a natural way. To the huge number of cooperating cooperatives **[Zap A - Farmers Without Land]** it is only a small step towards money-free mutual barter. The Trueque participants **[Zap I – Let's Trueque]** and the local savings- and consumer groups can bring in their spending power and gain extra possibilities to strengthen themselves locally. And so there are many more companies, organizations and governments that benefit from this way of working, and want to work this way. Strohalm is actively advising partners and busy creating models that could lead to a big, integrated, interest-free trading network.

Thus the building blocks are created for a consumer/companies network that releases administrative money to the participants. A network that is able to facilitate trade in areas where money is scarce, to finance company investments, achieve consumer discounts and reinforce the local social and economic structures.

U.e. Turn the crisis into a chance for independent entrepreneurs

Many independent companies don't have any choice but to cooperate in a mutual trading organization. Their current position on the money market is so much weaker than their big competitors', they would be fools not to make use of this current development. The beauty of it all is, it's not fiction anymore. In Switzerland, there's a mutual exchange network that has demonstrated what can be achieved over the past years.

U.f. The impossible position of independent companies

Big company conglomerates have a major head start in avoiding interest costs through internal settlement. Their financing costs are therefore significantly lower, sometimes only half those of independent companies. Many independent companies have already gone to the wall. More and more, independent entrepreneurs are forced to integrate their company into bigger concerns.

There is only one way for them to respond: cooperation! Not by becoming big companies themselves, but by maintaining their individuality and start a mutual trading structure with the same internal settling system as the multinationals. Joining such a cooperative offers perspectives both to independent companies and to cooperatives. This is the only way they can control part of the monetary circuit and with that, gain access to cheap capital.

Such a cooperation between independent companies brings other advantages as well, like sharing know-how. And at the end of the day, I see one great big advantage for cooperating independent companies over their quoted competitors: they won't have to pay stockholders!

V. Strohalm's Never-Ending Search for Solutions

In this chapter you will learn how Strohalm, in cooperation with others, has gone down the road of new possibilities as time went on.

As a high school student I enjoyed nature as it was then, without being truly aware of it. The waving wheat fields, before the house, the polder where in summer, the little fish flashed by you in the canals and the birds that attacked you when you infringed on their territory. I took it for granted, until I was confronted with municipal plans to construct a highway and a huge shopping mall right in those lovely wheat fields. I successfully organized a resistance movement against these megalomaniac plans of a town council that saw themselves as the prophets of progress.

On a meeting about these plans, I was addressed by an older inhabitant, Mr. Roelofs, who told me: "These delusions of grandeur and this building craze are stimulated by the interest-bearing monetary system," he argued. He told me, as I now tell others, how the interest-bearing money plays a part of its own in the economy and how it forces us to act in a way we would rather not. "We most certainly have a choice", he insisted, and bombarded me with a story on interest free money that made little sense to my sixteen year old self. But there's one story I always remembered. Roelofs told me about a village in France where local money with *negative* interest had wiped out the national currency, and stimulated local trade at

the same time. (I have described this experiment in Lignières-en-Berry more extensively in other Strohalm publications.)

The notion of changing the monetary structure has haunted me ever since. Later, when I was confronted with social movements and socialist parties, it often came to mind. What those folks in France had done, was something I heartily approved of: a movement not based on conviction or power, but nevertheless one that successfully competes with the capitalistic system in its essence: the monetary system.

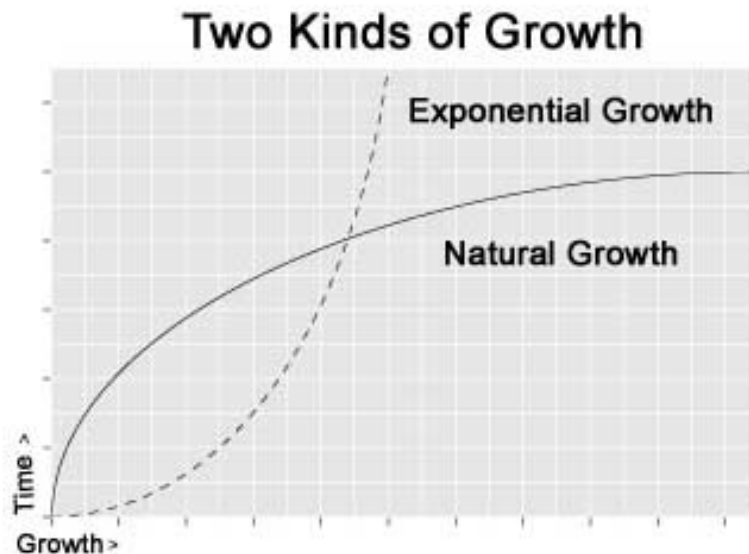
Unfortunately, I saw no real use for these ideas about interest-free money, because at the time I still believed in the economic theory that claims low interest rates inevitably lead to economic growth. And I didn't want any more economic activities in an environment already hard-pressed.

Yet I continued to ponder these issues. I gained more knowledge on the subject, e.g., on the Egyptian grain silos **[Zap G.a. – The Egyptian Harvest Bank]** and on other forms of *money without interest* and I became ever more charmed of the idea that you can try and realize change by renewing the basic underlying principles, the *steering mechanisms of a system*. In Strohalm we refined these ideas, e.g., in the *ecotaxplus* campaign, where we pleaded for a shift in taxation from labor to raw materials. The current priority in the taxation system doesn't tax the use of the environment and raw materials, and therefore forces every entrepreneur to automatically replace expensive labor with cheaper, untaxed energy and raw materials. In short: the consumer society and its structural problems with unemployment were the logical result of a faulty steering mechanism in the taxation system.

During the same period in the mid-eighties, the lightning bolt hit us: you don't have to worry about endless economic growth if the market conditions make it impossible to claim interest. An interest-free monetary system would lead to economic prosperity, but would also mean the end of the exponential growth caused by the interest-bearing money. **[ZAP L - Our Theory on Interest]**

This has been displayed in the graph below. The bloom curve resulting from an interest free monetary system shows a steep upward trend at first, and then levels off while the curve of the interest-bearing system resembles a dangerous cancer. The initial recovery when the interest charges are released occurs because more people have a chance to make something out of their lives. This is possible because the economy is no longer in the grip of scarce money. Apart from that, the bigger consumption by customers is partly compensated because there is no more loss of capital due to replacing of machines, office buildings etc.

[Zap X.d. – Natural Growth vs. Exponential Growth]



Once we had made this mental leap Strohalm did some serious thinking about money and interest. In 1990 we organized a congress to celebrate the 20th anniversary of Strohalm, with the title: 'After the acid rain the Flood?' This congress discussed the connection between the monetary systems and major environmental issues like changes in the climate and extinction of plants and animal species.

In 1994 we felt the time was right for a field test to see if we could make a difference. We decided to start a project in Amsterdam: a barter system without money, a so-called LETS system. The participants christened it Noppes (Naught/Free), because from this moment on you could get anything for Noppes in Amsterdam.

This example was soon followed. Within a few years the LETS movement had more than a hundred participants and was strong enough to stand on its own two feet. Strohalm transferred the mutual cooperation to LETSland and now mainly concerns itself with further innovation to solve some sticky issues.

From the beginning, we knew that persuading companies to participate with this local networks would not be easy. We used our experience with these exchange networks for individuals and our knowledge of company systems elsewhere in the world to found Amstelnets. Amstelnets is a companies-barter network in Amsterdam that uses a WIR-like system. **[Zap T - WIR]** There we learned that companies are only interested in a network once it has proven itself, once it is big enough. And so the heart of the matter was: how do we reach that point?

V.a. Exchange and Research Network

This research network is based on analysis which expresses our profound concern on the dynamics of interest in our society, the accumulation of wealth and power it causes, and its effects on the purchasing power of the majority of people.

We are astounded by the obviousness by which the major premises of neo-liberalism are accepted, without ever checking many of them or comparing them with factual data.

This programme intends to fill these gaps, and to construct a framework which is more close to reality, which does not encourage large scale accumulation and abuse, and which, most importantly, does offer a solid underground for those who wish to act to improve their fates.

This is not intended as a discussion forum, but as an international research network in which we want to co-operate with anybody who shares the premises of our analysis in creating both an analytical framework from which to act, and simultaneously a set of methodological tools with which to act.

What you will read hereafter is the outline of our analysis, and the themes were identified as interesting research topics for countering the neo-liberal paradigm.

You are welcome to react. If you have critiques or corrections to the analysis you are very welcome to share them. If you wish to take part of the research or to investigate specific topics, please contact Camilo Ramada at Aktie Strohalm, camilo@strohalm.nl

Analytical background

Keynes, the renowned economist, observed in the nineteen-thirties that when interest falls under 3 or 4 percent, owners of money prefer to keep it, rather than to lend it or invest it. This led him to his widely asserted economic understanding of the 'liquidity trap' which has manifested itself repeatedly all over the world. But: what does this knowledge imply?

A positive rate of interest means a price on money, which means that supply is smaller than demand. Keynes' discovery that as soon as supply and demand of money are balanced (interest zero) there will be a crisis (liquidity trap), forces politicians and authorities to prevent that this situation occurs.

The directors of the F.E.D. and the European Central Bank are actively engaged in attaining an endemic shortage of money. We can never realize this enough: a shortage of money means a shortage of means of exchange, this means a shortage of the possibilities for people to realize themselves and their goals in the economy.

Because of the competition that is ignited in the economy to obtain the scarce means of exchange, the weaker see their chances of realization unnecessarily minimized. They, for example, become unemployed.

Research theme: investigate the rate of interest in poor countries and assess how much productive capacity is being unused as a result.

One of the sophisticated aspects of our monetary system is that money comes into circulation against interest, hereby automatically creating the scarcity of money in the future because of the money needed to pay this interest.

Research theme: investigate the relation between money-creation in certain years and money-shortage in others.

Research theme: investigate which social groups bear the debts that result.

The paradoxical effect is that the system has a continuous shortage on the one hand, but at the same time is forced into a dynamics of growth (or crisis).

The scarcity of money hardens competition. Competition is no longer only about markets, but also about finance.

Research theme: establish a distinction between competition over markets and competition over finance (including investment-capital to improve production), and thereby make visible the unnecessary toughening of the market economy because of monetary dynamics. Try to investigate periods or areas with different rates of interest.

Authorities will try to keep the price of money at a minimum level of 3 or 4 percent. It can be higher, of course, for example because of the need to pay interests over previously created money.

This interest results in a monetary flow from the poor to the rich.

Research theme: collect data on the extent and effects of this monetary flow.

At the same time, these flows imply a concentration of fortunes which accelerates itself and which moves according to its own logics. Generation of returns becomes the main argument, instead of other productive or economic motives.

Research theme: analyse the concentration of fortunes and its effects on expenditures and investment patterns.

Acceleration and pauperization take place between different (groups of) people, as well as within each of us. In rich countries life is being more and more commercialized, and despite all prosperity many people do not find the way to develop themselves.

Research theme: the proportion of monetarized activities in the lives of people in different times and different areas.

Seen the endemic shortage of money the world finds itself not only in a competition for markets and competition for finance, but more and more also in a competition for purchasing power.

Economic theory assumes that prices give consumers information on which would be the cheapest purchase. This is only true in part if we take into account the importance of purchasing power in economic welfare.

Prices do not give any information on the ways in which the liquidity of the expenditure will flow. Will this money circulate locally, or will it leak away from the region, and therefore be lost as purchasing power? Prices do not tell anything about this, and a good with a lower price, may be cheaper to the individual, but if the good comes from outside the region the cheap price means a leakage of liquidity from the community. The locally produced good may have a higher price but the money paid for it will circulate locally and eventually may come back to the consumer.

This prisoners dilemma for the consumer is a familiar theme everywhere where local producers face competition from large transnational corporations. As soon as

consumers follow the prices, they have an advantage in the short run, but the entire community is left without liquidity in the long run.

Research theme: investigate the added value of locally circulating purchasing power, in for example island economies or economies which are excluded from interaction with other countries (communist countries, apartheid-South Africa, etc.). Calculate the effect on prices. Investigate if these arguments are being weighed in discussions about import-restrictions.

This prisoners dilemma that exists for the purchasing power of consumers, also exists for savers: for any individual it is more lucrative to invest his/her money in richer areas. But for the community as a whole this means a drain of capital on the one hand, and a depreciation of it's possessions (in which nobody invests) at the same time.

An individual however does not see this in a price. He or she only sees the lower price from the foreign good, and is thus forced into a prisoners' dilemma.

Research theme: investigate capital flows in communities and calculate the benefits of capital being invested locally.

Money and poverty

One effect of the abovementioned mechanisms is that money fails there where it is most needed. Entire populations are left without the symbol they need to organize and specialize and thereby improve their conditions. This is the more cynical because it has been exactly this monetary system which has in an earlier phase pushed aside other (traditional) systems of organization.

What we see in many places in the world today is unnecessary disorganization and lack of specialization, and hence poverty. We see people that cannot find the ways to effectively work for one another.

Research theme: investigate the amount of economic activity that can be generated in crisis situations only by introducing a means of exchange (for example: the Trueque experience in Argentina).

The weak point of the expanding monetary system is the exponential growing burden of debt. This is the logical consequence of a system that needs credit for the creation of money.

Research theme: collect data on these growing debts. Compare national debts, consumer debts, debts of enterprises, etc. Try to find how these dynamics have functioned in other historical periods. Investigate if these debt burdens are transferred geographically and if they are accumulated.

The flow of liquidity from the poor to the rich caused by interest payments, causes the debts on the periphery of the system to become so large, that all trust disappears and credit is no longer available. This effect can be seen in every country, but also on the international level.

It is in the margins of the world economy that we first encounter the effects of the exponential growth of debts. This is where you find monetary wastelands: there is no money left in the productive circuit, no more money can be lent to invest in modernization.

Research theme: investigate the developments in the credit-worthiness of regions, (for example South Shore Chicago).

When money disappears from a region while being the main symbol of economic organization the results are disastrous. When there is no more tool to administrate the mutual exchanges, this exchange comes to an end. Companies that produce for local consumers disappear because of the lack of local purchasing power.

Research theme: investigate historical evidence for this sequence.

When mutual exchange diminishes, so do government revenues (taxes). This results in deteriorating structures such as education, housing, social programs, etc. These structures are essential not only for human wellbeing, but also for economic development. In this situation poverty and unemployment become hopeless.

This unending poverty and unemployment is in a large part not caused by the lack of contact with the world market, but simply by the lack of a means of mutual exchange.

Research theme: quantify the relation between the non-usage of production capacity and tax-revenues. Case studies of areas and periods in which the economic conjuncture showed sharp declines.

The international rat-race for purchasing power

In the international arena we witness a growing competition. From our point of view the aim of this competition is to stop the constant leaking away of money to interest payments.

Where the creation of new (debt-) money is one mechanism to stop the money leak - one that leads to a larger leak in the future- another strategy is to obtain the money from other countries. This is of course a non-strategy, because the gain of one is the loss for the other, thereby resulting in a never ending rat-race.

Research theme: investigate the net amount of global money-flows and determine which countries have a net gain of purchasing power, and which lose purchasing power.

At the same time, the local economy is pushed aside by the export-economy, thereby destroying valuable means of production for the population. In the next cycle this leads to the necessity of imports, thereby undermining it's own purposes.

Research theme: investigate the amount of imports replacing once-existing local production for different countries.

What is even more amazing is the fact that supra-national organizations, such as the IMF and World Bank have actively pursued this strategy (Structural Adjustment: the opening of economies to the world market) as a path towards development. It is of course obvious that one individual country can gain from larger exports as it

temporarily gets hold of external purchasing power, but this can be done only at the loss of another country.

In stead of offering a healthy development strategy for the poor countries, the IMF has thus urged countries into a zero-sum competition for scarce liquidity.

The daily reality of a globalized monetary system is that consumers get no information in prices about where their purchasing power will flow to. In other words: when buying a locally produced good the chances that this purchasing power will return to the buyer when he/she is performing the role of seller/producer is larger than when buying an external good or service. Locally circulating liquidity will generate economic activity over and over again. So as a whole the community is benefited from 'buying local', even if the local prices are above world market levels.

Overall view

What we see here is a monetary system that needs scarcity to function. In it's systemic functioning it creates a lot of wealth, but at the same time it actively creates poverty. It accumulates the scarce liquidity and leaves a large part of people without any purchasing power, having destroyed other ways to symbolize their economic specialization and exchanges and mediate reciprocity.

At this moment we, Strohalm, are working on a book called 'Poor because of Money'. In this book we introduce and explain the abovementioned concepts and mechanisms.

If you or your institution want to adapt this book to your situation and your language, and thus become our co-authors, you are very welcome. We plan to have this kind of cooperation with a limited number of partners.

Methodology

Apart from developing an analysis on monetary dynamics and their consequences, we, and others, are actively involved in designing new systems for engaging in economic interaction. Many of these systems are working today and have the provide not only a new view on the functioning and possibilities of money, but, more importantly, provide immediate purchasing power and the means for economic self-realization for the participants.

The scope of the analytical framework as outlined above is to provide the theoretical backing for a practical and active movement in the field of monetary initiatives. For this movement we are working on methodological themes. This work is outlined on the page 'methodological development network'.

Contact

Please contact us for further elaboration of possibilities. Contact person is **Camilo Ramada**, camilo@strohalm.nl

V.b. Take Action Now!

To make the world a better place, it really doesn't matter who you are, or where you are. Only by taking action where you are will things ever improve. We at Strohalm

applies this philosophy to our work in Holland, and worldwide, wherever our programs are located.

It is not enough to protest against the negative effects of globalization when there are viable alternatives out there that need to be implemented.

Protest - Meaningful Action = 0.

Academics and Researchers

If you are a Student, Professor or Researcher, there is much research to be done on the effects of money on poverty and development, on meaningful solutions and how to best replicate them in other locations. The materials section of our website (<http://www.strohalm.nl/english/materials.html>) contains thousands of pages of research that has already been done, and we are happy to give you a few ideas for research that has not been done yet. Follow the links on the left to explore some of what we have to offer.

Entrepreneurs

If you are an Entrepreneur or simply a Business Owner, we can show you how to improve your competitive advantage and create a favourable climate for your business where you live. We have several programs underway that are focused on enterprises. If you'd like to learn more about these programs and how they can benefit your business, send us an email to info@strohalm.nl.

Fieldworkers and Development Practitioners

If you are a Fieldworker, we can foresee many opportunities in implementing new economic projects throughout the Global South. If you are already working on similar programs, such as with a credit union, micro-credit program, self-help group, community infrastructure projects, or on issues such as housing, unemployment, income generation, you may want to see some of our programs that are focused on these issues, such as the Valuable Local Currency System, our Bonus Microcredit Program or our Consumer Commerce Circuit.

Activists

If you are an activist, we can show you how to turn protest into action. The first alarms are now ringing, thanks to those who have risked their personal safety to put the issue of third-world debt, neo-imperialism, inappropriate globalization on the agenda. The next step is to put appropriate alternatives into practice. This is what Strohalm is working on. As an activist, you can keep the movement headed in a positive direction by telling others what they can do to make changes where they live.

Organizations

If you are a member of an Organization that is working on issues related to poverty and well-being, access to credit, enterprise development, skills-training, etc., we are willing to cooperate with you to introduce economic development programs and pilot projects.

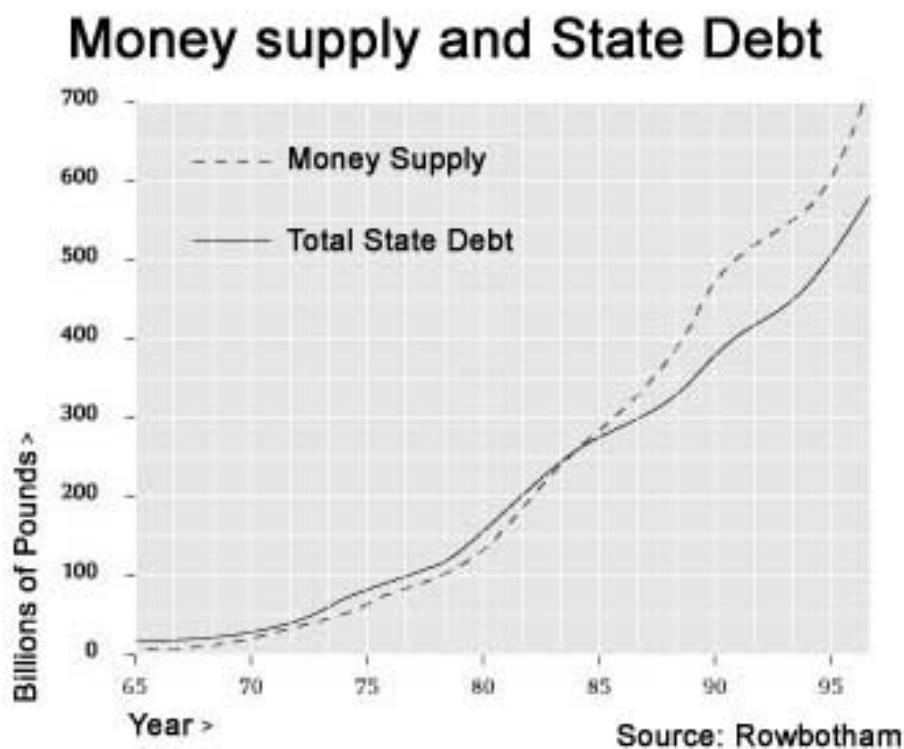
W. Help Us Write The Last Chapters

This book is an ever-growing work in progress, an internally-networked collection of our thinking over the past decades. This thinking has not gone on within the stuffy confines of a scientist's, or worse, economist's bell jar or mechanistic Newtonian head-space. Rather, it has been a part-scientific, part-organic development in collaboration with many other thinkers from around the world, whom we thank both privately and publicly for the opportunity to cooperate on building a new economy, and through it a new world.

You too have the opportunity to cooperate with us, and we will grow together through it. If these ideas move you, please contact us and add another branch to the tree.

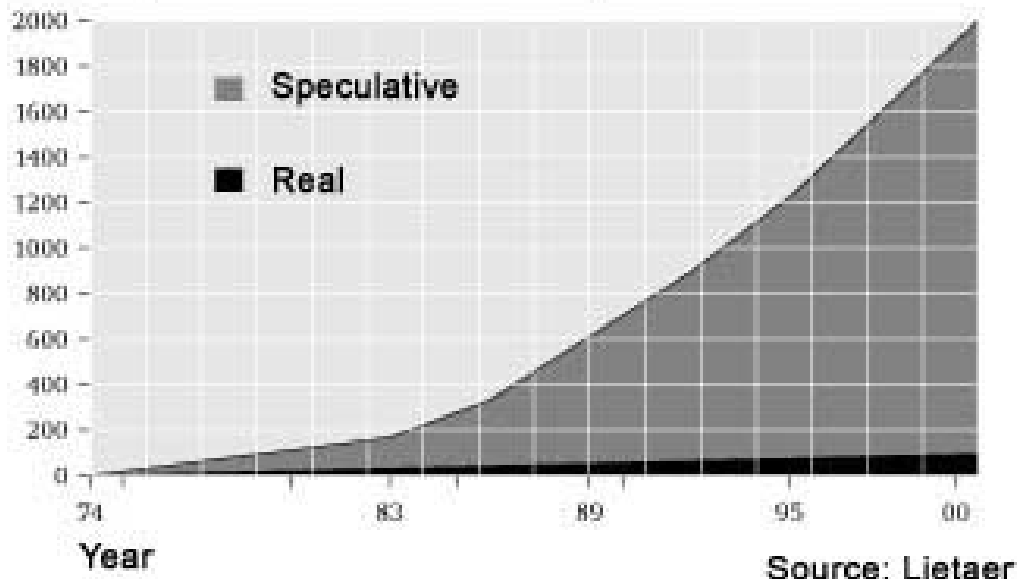
X. Graphs & Diagrams

X.a. Rowbotham Graph



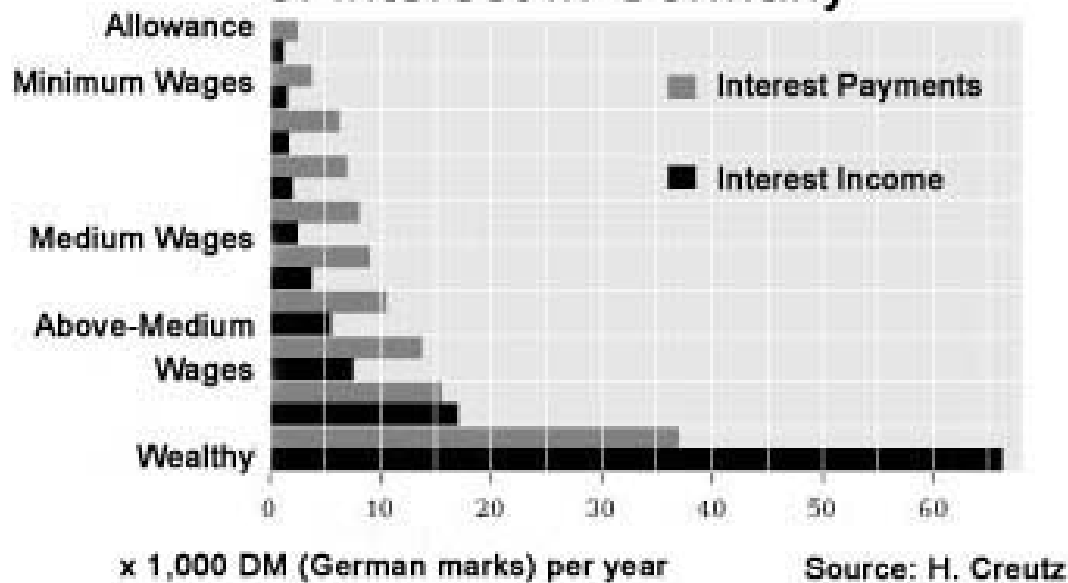
X.b. Lietaer Graph

Daily Total Currency Transactions



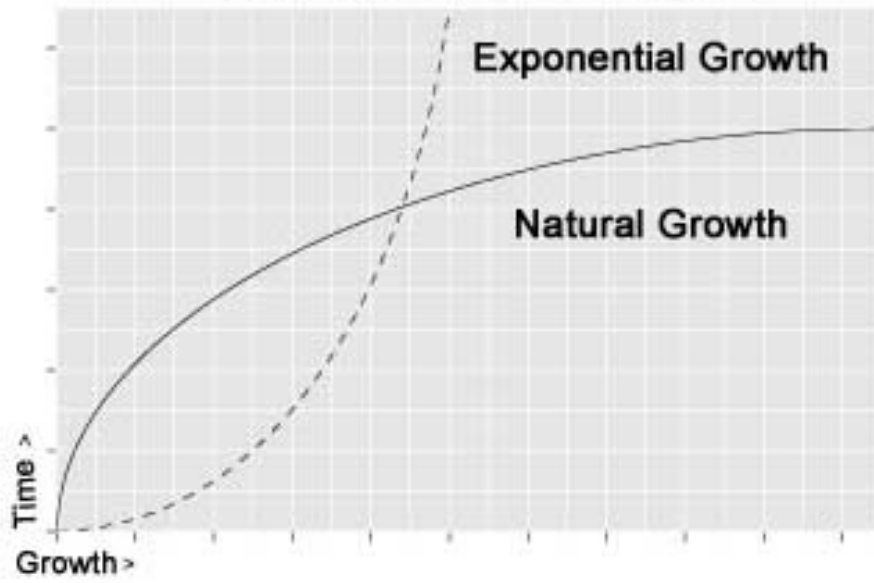
X.c. Creutz Graph

Comparison of income and expenses of interest in Germany



X.d. Natural Growth vs. Exponential Growth

Two Kinds of Growth



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<http://www.instrodi.org/> (Portuguese, Brazil)
<http://www.stro-ca.org/> (Spanish, Central America)